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Established 1887

Poland to Use Armed Forces In Crackdown on 'Anarchy'By John Danzon
New York Times Service

WARSAW — Premier Wojciech Jaruzelski told parliament Thursday that he had instructed the army and police to crack down on lawlessness and anti-Soviet activity.

Gen. Jaruzelski also asserted that the fate of the nation depended to a considerable extent on the policies to be adopted by the Solidarity union at the second phase of its national congress beginning Saturday in Gdańsk.

He called on the union to isolate itself from the enemies of Socialism, to put the government in implementing economic reform and to recognize the supreme rationale of Poland's alliance with the Soviet Union.

The general's speech, mingling threats and appeals, seemed to cap a weeklong government campaign to pressure the union to adopt a more moderate course and back away from political-sounding resolutions that characterized the opening of the congress earlier this month.

Soviet Message

The campaign followed a blistering message from the Soviet Union that all but ordered the government and party to take radical steps to end what Moscow saw as a politically inspired campaign of anti-Sovietism.

The message provoked a debate at the highest level of the Polish Communist Party, inside the Politburo, over whether or not to declare a state of emergency, which would allow the imposition of martial law. Moderates, including the party leader, Stanislaw Kania, prevailed, and the leadership decided instead to issue stern warnings and strike an uncompromising stance in dealing with the union.

In his speech to the Sejm, which opened a two-day parliamentary session, Gen. Jaruzelski was soundly applauded when he said he had instructed the minister of internal affairs, who heads the security apparatus, to take steps to end "anarchy" and anti-Sovietism. The ministry will be supported by specially detailed army forces, the general said.



Gen. Wojciech Jaruzelski

Gen. Jaruzelski's speech also painted a grim economic picture. He said that industrial production had fallen 13 percent in the past eight months compared with the previous year, that export capacity had diminished and that rationing would have to be extended. A particular problem, he said, was a continuing decline in the supply of meat and black-market sales that affect 20 percent of the meat that should have gone to state purchasing centers.

In New York, Solidarity opened its first overseas office Thursday, Reuters reported. The movement said the specific aim of the bureau would be to establish a close relationship with U.S. unions. Its 35-year-old director is Zygmut Przelakiewicz, a journalist.

Soviet Paper's Accusation

MOSCOW (UPI) — The newspaper of the Soviet Union's state-controlled labor unions charged Thursday that Solidarity had become "a Trojan horse of imperialist tendencies to the hooligan unbridled to anti-Soviet and anti-state excesses."

Worker Self-Management

The parliamentary session will consider a sensitive issue, a new law on worker self-management in factories and other enterprises that has been a major bone of contention between Solidarity and the government.

The leadership of Solidarity offered a compromise Tuesday that would permit the government to appoint directors in certain enterprises and the union to appoint them in others. Each side would have the right to appeal the other's appointment to binding arbitration by a court.

The compromise, however, drew some criticism Thursday from regional Solidarity leaders, and it was not at all certain that it would be approved at the congress. Some Solidarity chapters have also been passing "resolutions condemning what they call pressure tactics by both the government and the Soviet Union."

Armenians Kill Turk And Hold 25 in ParisBy Paul Treutheit.
The Associated Press

PARIS — A four-man Armenian "suicide squad" shot its way into the Turkish Consulate on Thursday, killing a security guard and threatening to kill 25 hostages unless all Armenian "political prisoners" in Turkey were immediately flown to France.

About eight hours after they seized the central Paris offices, they handed over the body of the dead Turkish guard, a police officer at the scene said.

Earlier, one of the Armenians, wounded in the shoulder by police fire, gave himself up and demanded political asylum, and the commandos released Kaya Inal, a vice consul, who was seriously wounded in the chest.

They also released a 3-year-old child who had been shown at the window by one of the Armenians.

Messages from the commandos, also released in Beirut by the Armenian Secret Army for the Liber-



A guerrilla of the Armenian Secret Army held a pistol on a weeping hostage in the window of the Turkish Consulate in Paris on Thursday. He asked the police to let journalists come to the sidewalk below to receive a message from the commandos.

(Continued on Page 2, Col. 5)

Inmate Abandons His Fast in Ulster

Reuters

BELFAST — An Irish Republican prisoner in Belfast's Maze prison, Bernard Fox, abandoned his hunger strike Thursday after being told he had no more than five days to live, the IRA said. He began his hunger strike 32 days ago as part of a campaign for greater privileges in prison.

An IRA statement said that Mr. Fox, 30, who is serving a 10-year term for possession of explosives and bombing a hotel, decided to drop his fast after being told that a bleed in a tube to his kidneys would cause premature death.

Mr. Fox's decision to accept medical aid left seven prisoners refusing food.

(Continued on Page 2, Col. 5)

open your stores for us so that we can give the Afghans the armaments they need to fight," and I gave the armaments," Mr. Sadat said.

Mr. Sadat said the arms were Soviet manufactured prior to 1972 — before Mr. Sadat threw the Russians out of Egypt.

On Feb. 15, 1980, the Washington Post reported that the United States was secretly slipping weapons, mostly Soviet-made small arms, to the rebels across the Pakistani border. The Soviet presence helped to disguise the weapons' origin, and the arms were available in countries such as Egypt.

In the interview, Mr. Sadat said he continues to supply arms and will do so "until the Afghans get ... the Soviets out of their country."

In Washington on Wednesday, sources who declined to be identified said there is only speculation as to why Mr. Sadat gave official recognition to the operation.

Mr. Sadat made his comments during an interview with NBC News in Cairo. Soon after the Russians intervened in Afghanistan in December, 1979, "the

United States sent me airplanes and told me, 'Please

U.S. Officials Puzzled by Sadat's Revelation of Aid to Afghan Rebels

Washington Post Service

WASHINGTON — Many senior government officials here are puzzled as to why Egyptian President Anwar Sadat said in a television interview that the United States had secretly buying old Soviet-made arms from him and slipping them to rebels fighting Soviet forces in Afghanistan.

There has never been official confirmation of the operation, and the fact that it now comes from a major pro-Western head of government has left much of the Washington unhappy.

The U.S. effort, led by the Central Intelligence Agency, to help supply the Afghan resistance has always been largely top secret, although several news stories, based on accounts supplied by unidentified sources, have reported on the operation.

Mr. Sadat made his comments during an interview with NBC News in Cairo. Soon after the Russians intervened in Afghanistan in December, 1979, "the

United States sent me airplanes and told me, 'Please

Some thought it simply a result of getting too expansive in an interview. Others saw it as perhaps Mr. Sadat's way of demonstrating that Egypt, too, has a strategic relationship with the United States, just as the Reagan administration recently announced the United States has with Israel.

In another view, Mr. Sadat highly praised throughout much of the West as a leading world statesman and man of courage, faces domestic political problems and may simply have felt frustrated and wanted to show the extent of his involvement in matters requiring decisiveness.

Some sources said they assumed the Pakistani would be the most vexed at Mr. Sadat's remarks. Pakistan has borne the brunt of many problems in the wake of the Soviet intervention, including an influx of millions of Afghan refugees and constant pressure from Moscow not to allow its territory to serve as a conduit for rebel arms.

Officials at the State Department and CIA had no comment on Mr. Sadat's remarks.

Tass Comments

MOSCOW (Reuters) — President Sadat's disclosures about U.S. weapons supplies to Afghan rebels show that American demands for a withdrawal of Soviet troops from Afghanistan are hypocrisy, Tass said Thursday.

Tass said Mr. Sadat had badly let down his friends in Washington and made clear to all Americans why the Soviet military presence was needed in Afghanistan.

The agency said Mr. Sadat had effectively confirmed that the United States along with China, was waging a battle to overthrow the Kabul government, and this, it said, fully explained why Moscow had "come to the assistance of the Democratic Republic of Afghanistan."

U.S., Russia Set Fresh Talks on Europe Missiles

By Don Oberdorfer

Washington Post Service

NEW YORK — The United States and the Soviet Union announced Thursday that talks on limitation of medium-range nuclear forces in Europe would resume in Geneva on Nov. 30.

The announcement issued simultaneously in New York and Moscow after a meeting between Secretary of State Alexander M. Haig Jr. and Soviet Foreign Minister Andrei A. Gromyko, said that "both sides believe in the importance of these negotiations for enhancing stability and international security and pledged to spare no effort to reach an appropriate agreement."

Nonetheless, U.S. officials made clear they do not expect an early breakthrough to agreement in such talks. Among the complications is the issue of intercontinental strategic arms, on which no early negotiations are in sight. On Wednesday, an assistant U.S. defense secretary, Richard N. Perle, said the administration would approach the Russians within the next six months about starting new strategic arms limitation talks.

However, cost-of-living increases for food stamp recipients and some welfare programs would be subject to the 12-percent across-the-board reduction along with \$3 billion in fiscal 1982.

Gov. Snelling said \$7 billion of the \$16 billion in cuts would come from grants to the states, both those in which specific uses are ordered by the federal government and so-called block grants under which the states have greater latitude in spending plans.

Gov. Snelling, a Republican, called the amount a "very, very dramatic further reduction" and said he would work against the budget cuts.

Gov. James Thompson of Illinois, another Republican, confirmed earlier reports that the Social Security cost-of-living increase due to go into effect next July, at a cost of \$2.9 billion, would be "impermeable."

In his fifth speech on national television since taking office, Mr. Reagan was expected to cling to his targets of keeping the 1982 deficit at \$42.5 billion and balancing the budget in 1984.

Heading the Soviet team will be Ambassador U.A. Kvitsinsky, the announcement said.

The start of the new round of theater nuclear force discussions comes almost exactly two years after NATO ministers voted to deploy medium-range missiles while at the same time seeking negotiations with Moscow on controlling their numbers. The Soviet Union, Mr. Haig has said, now has about 270 of these medium-range missiles — SS-20 — deployed in Eastern Europe. Under NATO's plan, the alliance will put 572 of the latest nuclear force missiles — 108 Pershing-2 rockets and 464 Cruise missiles — in Western Europe by 1984.

Thursday's U.S.-Soviet announcement did not say whether the two sides have even agreed on the medium-range weapons to be covered — an unresolved issue in preliminary discussions late last year. The U.S. negotiating team, the announcement said, is to be headed by Paul Nitze, a former deputy defense secretary, a member of the SALT-1 negotiating team and a strong critic of the SALT-2 arms limitation treaty that was negotiated but not ratified.

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As a further hedge against the destruction of U.S. land missiles, the Pentagon has earmarked \$1 billion for the Air Force's anti-ballistic-missile research in fiscal 1983 through 1987.

At the same time, Mr. Carlucci continued research should go forward on other ways to base intercontinental ballistic missiles such as the MX, including burying them deep in the earth to withstand nuclear blast and stationing them aloft in giant aircraft.

Mr. Carlucci's instructions also told the Air Force to assume for budget-planning purposes that Mr. Reagan would start building a fleet of B-1 bombers in 1983 with \$300 million, aiming toward having the first ones ready to fly by 1986.

Closer to the Geneva discussions was the only tangible agreement expected by U.S. officials from the four hours of talks between Mr. Haig and Mr. Gromyko on Wednesday afternoon. Another meeting is scheduled Monday.

Mr. Haig and Mr. Gromyko met with only interpreters present for two hours and 50 minutes in the

Algeria	5,000 Det. Iron	135 Det. Negro	100 K.
B.S. Israel	LS 150	LS 150	LS 150 K.
Spain	6,000 Det.	1,000 Det.	1,000 K.
Belgium	30 Frs.	Portugal	40 Det.
Canada	1,100	Kenya	140 Det.
Cyprus	400 Mls.	Saudi Arabia	1,000 Det.
Iraq	5,500	Sudan	70 Pres.
Egypt	65 P.	Lebanon	625 K.
France	4,500 M.	Liberia	1,000 S.P.
Germany	4,000 P.	Malta	30 Sec. 100
Great Britain	20 P.	Yugoslavia	400 Det.
Netherlands	30 Cents	U.S. M.I. E.R.	500 K.
		U.S. D.C.	100 K.

INSIDE**Stocks Reeling**

Share prices continued to fall in London, where one analyst said the exchange's "utter confusion" was fed by pessimism about the economic policies of both the British and the American administrations. Page 13.

Prices on Asian bourses also fell, and concern about U.S. economic policies was seen as a factor. Page 14.

Latin America

With an abundance of natural resources, Latin America is attracting ever-increasing amounts of development funds. But heavy debt and soaring inflation — along with the element of political instability — tend to make investors cautious. A special supplement on banking and finance in Latin America appears on Pages 7S-1S.

TOMORROW**Hail Bartok**

Centennial celebrations for the composer Béla Bartók reach a high note in the next few weeks in his native Hungary. An appraisal of the composer, ethnomusicologist and pedagogue appears tomorrow in Weekend.

Conflict Seen

Even if Congress had not enacted the 1978 law, Mr. Tribe said in a telephone interview, "I would have grave doubt that the Constitution would permit the practice." Rejecting Treasury's defense, he said it is "clear that Congress has not given its consent. Plainly, we don't have it here."

At the hearing of his Commerce, Consumer and Monetary Affairs Subcommittee of the House Government Operations Committee, Rep. Rosenthal asked if the arrangement was an "apparent, al-

(Continued on Page 2, Col. 1)

Japan Decides to Let Arafat Make First Visit, Probably Next Month

By Henry Scott Stokes
New York Times Service

TOKYO — In an apparent policy change, the Japanese government has agreed to allow Yasser Arafat, the Palestine Liberation Organization leader, to make his first visit here probably next month. The decision reflects Japan's overwhelming dependence on the Middle East as a source of oil.

Tamio Amanu, a Foreign Ministry spokesman, said Thursday that if Mr. Arafat comes to Japan he is expected to meet with Prime Minister Zenko Suzuki and Foreign Minister Sunao Sonoda.

"It seems to be quite likely he's coming here sometime in October," the spokesman said. But Mr. Amanu said that Mr. Arafat would come to Japan on the invitation of a group of parliamentarians headed by former Foreign Minister Toshio Kimura, not as a guest of the Japanese government.

The possibility of an Arafat visit has been a subject

of debate in the Japanese government since late last year, when Mr. Kimura visited Mr. Arafat in Beirut and invited him to Japan. Mr. Kimura heads a group of more than 100 parliamentarians in the League for Japanese-Palestinian Friendship, an informal group of mainly conservative members of the ruling Liberal Democratic Party.

Mr. Arafat at first said he would not come to Japan unless the government invited him. Mr. Kimura said in an interview early this year. But he softened his position, saying he would come provided that he could meet Mr. Suzuki.

Not a State or Country

Japan's government, which allowed the PLO to set up an office here in 1977, opened the way for the Arafat visit. The PLO office in Tokyo, headed by Fathi Abdul Hamid, does not have diplomatic status.

At a news conference with foreign reporters, Mr.

Amanu said Japan "probably ... shall say no" if Mr. Arafat requests an upgrading of the PLO office to full diplomatic status.

He added, "the foundation of 'the present affluent society' ... is extremely weak."

"Japan today depends on the Middle East for about 70 percent of its total energy consumption," said Masao Sakisaka, a government economist. And, he added, the foundation of "the present affluent society" ... is extremely weak."

Naoiro Amaya, a former top trade official, predicted recently that U.S. oil supplies will dwindle in 10 years and that Soviet oil flows will run down in 14 years, but that the Middle East can maintain production for half a century.

And Japan's energy needs are expected to soar, boosting oil imports. Experts say that energy needs are expected to surge from the equivalent of 376 million tons in oil in 1977 to about 950 million tons by the year 2000.

"It is imperative for this country to establish closer ties with those [Arab] nations through economic and technological cooperation and cultural exchanges, to say nothing of diplomatic efforts," said Mr. Sakisaka.

Iran Accuses Saudis Of Beating Pilgrims

The Associated Press

BEIRUT — Iran accused Saudi soldiers of beating 20 Iranian pilgrims at the holy city of Medina early Thursday and complained that Iranians bearing portraits of Ayatollah Ruhollah Khomeini were being turned back by the Saudi Arabians.

Saudi officials, who have warned pilgrims not to bring in political propaganda, could not be reached for comment. An official at the Iranian Embassy in Jidda said a Tehran Radio report on the beatings overstated the incident. Tehran Radio claimed that 20 Iranians were injured and that 12 required hospital treatment.

Shiite Unrest

The Saudi royalty, facing unrest among the minority Shiite sect in the Sunni-dominated kingdom, has been nervous about Ayatollah Khomeini's call for exporting Iran's Shiite brand of Islamic revolution.

The Iranian minister of Islamic guidance, Abdolmajid Moadikah, said in a telephone interview from Iran that the dispute started over Shiite-Sunni differences in Islamic rituals at the holy shrine.

He said two Iranians, whom he described as cripples because of injuries received during the revolution against the shah, were arrested for kissing the tomb of Mohammed. The practice is a Shiite ritual but alien to the Saudi Arabians and Sunnis Moslems.

Other Iranians protested the arrests, chanting "God is great!" and the baton-wielding Saudi soldiers moved into the mosque, according to Mr. Moadikah's account. "The Saudis were nervous because they

are not used to this sort of thing, the way we here in Iran are," he said.

He complained that the Saudi Arabians had turned back about 80 Iranians headed for Medina as well as an Iranian television crew. He did not say what the intent of the TV crew was but said those pilgrims barred entry were carrying pro-Khomeini materials.

Khomeini's Picture

"We feel there is a fear of the Iranian Islamic revolution," Mr. Moadikah said. "All pilgrims who go from Iran wish to take the name's [Ayatollah] Khomeini's picture and messages to give as gifts."

The Tehran newspaper Kayhan accused the Saudi Arabians of singling out Iranians among the millions of Moslems making the pilgrimage.

A source who did not want to be identified, and who recently returned from Medina, said confrontations between Saudi security men and rowdies among foreign pilgrims at the holy sites were a "daily occurrence." Diplomatic sources have reported that security precautions this year are tight and unprecedented.

In November, 1979, about 700 armed Islamic zealots held the Grand Mosque at Mecca, Islam's holiest shrine, for two weeks and issued statements denouncing the Saudi royalty.

Saudi forces stormed the multi-chambered mosque, killing 117 of the zealots; 127 security men and 27 pilgrims also died, and more than 500 other people were reportedly wounded. The surviving conspirators were beheaded.

Riyadh Helps Meet Payroll At U.S. Treasury, Aide Says

(Continued from Page 1)
most shocking conflict of interest?" "No," Mr. Leland replied.

"To whom do these people owe their loyalty?" the legislator asked.

Mr. Leland said they worked for the United States-Saudi Arabian Joint Commission on Economic Cooperation, set up seven years ago by then-Secretary of State Henry A. Kissinger and Crown Prince Fahd to aid the Saudi Arabians in investing their huge oil revenues. "They are U.S. nationals," he said. "They owe their loyalty to the Joint Commission."

"And their salary is being paid reimbursable by a foreign government," Rep. Rosenthal said. "To whom do these people owe their loyalty?"

"I don't know," Mr. Leland said.

"Think about it," the congressman said. "You're a lawyer."

"I don't think the issue arises," the Treasury official answered. "They are U.S. citizens, and therefore owe their loyalty to the United States."



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Rep. Rosenthal: "We could get that deal from any government in the world, to put people in the Department of the Treasury or the Department of Defense. . . ."

Mr. Leland: "Not that would bring us a billion dollars worth of business."

Rep. Rosenthal: "I think the Soviets would go for that."

A key area of dispute is Treasury's practice of lumping together all Middle Eastern OPEC members' investments in the United States while listing the investments of other countries separately. Treasury policy is never to identify individual investors, Mr. Leland said, noting that in the OPEC countries the government is often the exclusive investor.

Rep. Rosenthal suggested that with the Saudi-paid employees, "You have a potential fifth column in the Department of Treasury, and you have reasons for not reporting the totality of Saudi Arabian investment in the United States."

Toll at U.S. Hotel Hits 113

The Associated Press

KANSAS CITY, Kan. — E.O. Gerster, a 63-year-old dentist, has died from injuries suffered in the collapse of two skywalks at the Hyatt Regency Hotel, raising the number of deaths from the July 17 disaster to 113, the University of Kansas Medical Center announced.

Testimony on Cutbacks

WASHINGTON (NYT) — Secretary Weinberger told the House Budget Committee that the Air Force would lose some B-52 long-range bombers and an Army division would be reduced to skeleton

status as part of the effort to reduce planned military spending over the next three years by \$13 billion.

Mr. Weinberger also said 29 ships would be stricken from the Navy. In an interview earlier this week he mentioned only 18 ships. In that interview he also said the A-10 and F-16 fighter planes, made by Fairchild Republic and General Dynamics respectively, would be revamped. He also told the Budget Committee the McDonnell Douglas F-15 fighter program would be cut back. On Thursday, before the Appropriations subcommittee on defense, Mr. Weinberger said purchase of F-15s would be cut by a total of 54 between 1982 and 1985.

Other reported cutbacks include terminating purchases of Franco-German Roland anti-aircraft missiles, slowing down the purchase of M-1 Abrams tanks and infantry fighting vehicles, ending purchases of KC-10 aerial tankers and reducing fleet steaming time.

The Titan-2s, first deployed in 1963, are the oldest and largest missiles in the U.S. strategic arsenal. They are liquid-fueled, and thus far more dangerous to operate than other U.S. missiles. Over the last few years, the Titans have been plagued by leaks of highly toxic fuels and two major accidents.

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MUNICH — Czechoslovak border guards found a would-be refugee hidden in a truck driven by two West Germans on the Czechoslovak-West German border, police said Thursday. They said guards questioned the trucker for several hours before they were convinced the pair had not known the 18-year-old was aboard. He was handed over to Czechoslovak security police.

The consular employee said he was working in his office when he heard someone shout in French, "Don't move." Then, he said, several shots were fired.

Turkish students, who said they were in the center's student service office and escaped through the windows, claimed they had heard three or four shots fired inside the building.

The Armenian Secret Army for the Liberation of Armenia has been waging a war of assassinations and bombings against Turkish diplomats and government offices to avenge the massacre of Armenians by Turkish soldiers during World War I. An estimated 1.5 million Armenians were killed and half a million were forced to flee as refugees.

The ASALA has claimed responsibility for more than 100 attacks on Turkish diplomats around the world.

Floods Hit Italian Riviera

The Associated Press

SESTRI LEVANTE, Italy — Flash floods struck the Italian Riviera and downpour hit Venice and the Emilia region of northern Italy on Thursday.

"Japan today depends on the Middle East for about 70 percent of its total energy consumption," said Masao Sakisaka, a government economist. And, he added, the foundation of "the present affluent society" ... is extremely weak."

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WORLD NEWS BRIEFS

Egyptian and Israeli Negotiators Outline Goals

The Associated Press

CAIRO — Egyptian, Israeli and U.S. delegates hoping to revive long-stalled autonomy talks said Thursday they would seek agreement on "understandings and principles" during lower-level meetings during the next four months.

The modest objective set by the two days of talks here appeared to fall short of Israeli hopes of speedily agreeing on a self-rule plan for 1.2 million Palestinians living in Israeli-occupied lands.

"The ministers established as their initial and immediate objective, excluding other avenues, an agreement on understandings and principles toward the implementation of the framework agreed on at Camp David," a statement said. Another meeting was scheduled for Oct. 21 in Israel.

Namibia Draft Is Ready, Western Nations Say

The Associated Press

UNITED NATIONS, N.Y. — Five Western countries announced Thursday that they have drafted a set of constitutional principles designed to clear the way for the independence of South West Africa (Namibia).

Details were not disclosed, but the United States, Britain, France, West Germany and Canada said the plan "likely to secure the confidence of all concerned." The announcement said the plan would be presented to the parties concerned in October.

Thursday's meeting followed talks in Zurich this week between senior South African officials and Washington's assistant secretary of state for African affairs, Chester A. Crocker. The Western countries have been trying to secure implementation of a plan for the future of the territory, a former German colony ruled by South Africa in defiance of United Nations resolutions.

Pakistan Bans an Afghan Resistance Meeting

The Associated Press

QUETTA, Pakistan — Pakistan banned a meeting here Thursday of Afghan tribal leaders who were trying to organize anti-Soviet fighters independently of the often-fighting insurgent parties based in northern Pakistan.

"We give them shelter but we cannot allow the Afghans to take political activities," a government spokesman told Western reporters. About 600 Afghans were present when 100 riot police surrounded them and a local magistrate declared the gathering illegal.

Abdul Qadus Khan, an organizer, charged that the Afghan rebels planned with local officials to sabotage the *jirga*, or tribal council. The major parties have had excellent relations with the Pakistani government, but friction between the groups reportedly has led to much bloodshed within Afghanistan.

Belgian Ex-Minister to Explore Cabinet Crisis

The Associated Press

BRUSSELS — King Baudouin Thursday asked Willy Claes, deputy premier in the ongoing Social-Christian coalition, to explore the possibility of solving the three-day-old Cabinet crisis.

Mr. Claes, a Flemish Socialist who also was economics minister in the government of Premier Mark Eyskens, does not have to try to form a new Cabinet. A Royal Palace announcement said the king asked him to "analyze all the elements of the political, economic and budgetary situation and to submit his conclusions concerning the formation of a new government or the dissolution of parliament." If parliament is dissolved, new elections will have to be held within 40 days.

The crisis broke out Monday when French-speaking Socialist ministers started a boycott of all government work, demanding absolute priority for a comprehensive plan to finance the ailing Cockill-Sambre steel combine in Wallonia.

Court Says Pope's Assailant Was Part of a Plot

The Associated Press

ROME — The court that convicted Mehmet Ali Agca of trying to kill Pope John Paul II said Thursday it believed the Turk was part of a plot to assassinate the pontiff.

But the Court of Assizes, in its legally required 50-page report giving reasons for sentencing Mr. Agca on July 21 to life in prison, admitted that it had no evidence of who might have ordered him to kill the pope.

The shooting of the pope on May 13 "was not the work of a demented ideologue or a criminal who did everything by himself," the court wrote. "He was the fruit of a complex plot orchestrated by hidden minds interested in destabilization. But . . . the evidence gathered has not permitted the state to discover the people behind the conspiracy."

Gandhi Urges Foreign Pullout From Cambodia

The Associated Press

JAKARTA — Prime Minister Indira Gandhi of India on Thursday stressed the need for a withdrawal of foreign forces from Vietnam-occupied Cambodia but defended Indian recognition of the Cambodian regime.

Mrs. Gandhi, on a 17-day Asian and Pacific tour, made the remarks at a news conference after a meeting with Indonesian President Suharto. India's recognition of the Hanoi-backed government in Cambodia is a point of contention between Indonesia and its four partners in the Association of Southeast Asian Nations.

She said, "We are convinced of the urgent need to de-escalate tensions through a comprehensive political solution which would provide for the withdrawal of all foreign forces, thus ensuring full respect for the sovereignty, independence and territorial integrity of all states in the region."

Influx of Haitian Refugees Strains U.S. Facilities, Miami's Patience

By Gregory Jaynes
New York Times Service

MIAMI — Summer is the time when the sea between here and Haiti is calmest, and so most fit for crossing. Two or three thousand Haitians took advantage of the flat sea this year, packing themselves 60 and 90 and sometimes 120 into a 30-foot boat that a seasoned captain would not trust in a cattle pond. Steering for freedom, they went straight to jail.

There are now 1,062 Haitians detained here at a former missile base on the edge of the Everglades. The base, called Krome North, has a "design capacity" of 530, which means the Haitians do not have much more space than they had on their boats.

The overcrowding has forced the U.S. Immigration and Naturalization Service to shift 800 to a former naval base, Fort Allen, in Puerto Rico. Smaller groups have been sent to federal facilities in New York, West Virginia and Kentucky.

The summer just ending has been a loud one in Miami, with civil libertarians proclaiming the refugees' rights, the refugees themselves rioting at Krome, and the city growing more ardent over unwelcome guests competing for scarce jobs.

This was the summer of a sold-out bumper sticker that asked the "last American" leaving Miami to "please bring the flag." It was also the summer that a bogus poster, based on a tourism advertisement urging Miami's visitors to "see it like a native," showed a fetching beachcomber armed to the teeth over the legend, "siege it like a native."

Some say the feelings are part of the general mood of the country after dozens of small boats brought 125,000 Cubans, many viewed as thugs, to southern Florida in 1980. Some others criticize a national immigration policy that appears kind to people fleeing Communism, but unfriendly to those who have fled to the United States. For whatever reason, the government has been tougher on Haitian arrivals than at any time in nine years, in which time 44,000 Haitians are known to have arrived.

Rush to Judgment

"What I keep in mind," said Mike Trominski, a spokesman for the naturalization service, "is that these are illegal aliens, just like Germans or French or any other nationality would be if they tried to enter this country without the proper documents. I think this has been lost sight of."

The Immigration and Naturalization Service has been careful not to use the word "refugee" during the state of federal court action the Haitians' arrivals have triggered. The main question has been which Haitians came to find jobs and which to seek political asylum.

The government seemed bent on a new policy of taking care of them rather rapidly, one guesses to discourage others from leaving Haiti," said Bruce Winick, a University of Miami law professor who has sued to slow things down. "The refugees were double-timed up back stairs to avoid public hearings. I mean it was just lunacy. There were mis-

translations. They understood asylum to mean insane asylum. The INS was quick to infer a waiver of their rights when in fact the refugees had no idea what was going on."

In July, the government began hearings at Krome where it contended that the Haitians, most having been picked up at sea, never technically entered the United States and can thus be excluded, a process swifter and simpler than deportation.

Attorneys for the Haitians argued unsuccessfully that Krome, a 45-minute drive from central Miami, was too far away to hold hearings.

One lawyer who made the trip anyway was Steve Forrester. "They scheduled us regularly to be in two or three courtrooms at the same time," he recalls. "On Aug. 4, I had 29 hearings going on in three courts. I had four people deported because I couldn't get there. I was literally running between courtrooms. I'd ask for a continuance of 10 days and not get it. I'd ask for two hours. No. Ten minutes?" He said that one judge "gave me 10 minutes; the other two gave me a brief moment."

A Victory

On Sept. 3, about 600 of the Haitians at Krome started chanting "liberty or death." "Miami is our country" and "set us free." They threw stones at guards; the guards threw tear gas canisters at them. Ninety-eight escaped but were caught quickly. The next day, 120 were transferred to the Federal Correctional Institute at Otisville, N.Y.

Early this month the Haitians won a victory when Judge Alice Hastings issued a temporary re-

straining order in U.S. District Court barring exclusion hearings or deportations of Haitians not represented by attorneys.

The most recent developments in the Haitian story were the government's refusal to parole detainees to sponsor or family, and a proposal to reopen an abandoned Air Force base in Glasgow, Mont., for up to 2,000 illegal aliens.

In New York, Ira Gollubin, a National Council of Churches lawyer speaking for the Haitians, said last week that he had submitted sponsorship papers for 60 of the 76 held at a former Navy prison in Brooklyn.

"We said clearly they would abscond and they are not subservient," he said. "We haven't heard a peep from the INS. Here they are supposed to be economizing ... and we've got over 2,500 Haitians in the pocket, costing hundreds of thousands of dollars."

The proposal to move the bulk of the Haitians to Montana has been heavily criticized, mainly because of the cold, windy climate and a lack of legal counsel. The INS says that no decision has been made.

The Missoulian, a daily newspaper in the region, has editorialized that the move would be "brutal" to the Haitians.

In Miami, meanwhile, the chop is getting rougher out beyond the bay, but two more boats made it to shore last week. One bore 66 passengers who were in good shape because they had come only from the Bahamas. The other boat had been 21 days at sea from Haiti, and as its 113 passengers gained the beach, one dropped dead from dehydration.

Senate Moves to Tie Salvador Aid to Reforms

By Judith Miller
New York Times Service

WASHINGTON — The Senate has tentatively endorsed a measure that would require President Reagan to certify that the government of El Salvador was making progress in implementing human rights, economic and political reforms as a condition of U.S. military aid.

Disregarding a plea from the Salvadoran president, Jose Napoleón Duarte, that the conditions be eliminated, the Senate voted 54-42 Wednesday in favor of bimannual certification.

The measure, sponsored by Sen. Claiborne Pell, Democrat of Rhode Island, was offered as an amendment to a proposal by Sen. Richard G. Lugar, an Indiana Republican. Sen. Lugar's amendment would eliminate the certification requirement entirely. The Senate is expected to consider the Lugar

proposal when it takes up the \$5.8-billion foreign aid authorization bill again.

Sen. Charles H. Percy, Republican of Illinois and chairman of the Foreign Relations Committee, endorsed the certification concept but read into the record a letter from Mr. Duarte asking that the resolution be deleted.

'Unacceptable Imposition'

"I hope that the Senate will recognize the conditions as an unacceptable imposition on a government friendly to the United States and fully committed to fulfill its pledge," the letter said.

Mr. Reagan, in a letter to Sen. Percy, urged the Senate on Wednesday to approve his foreign aid legislation, warning that reductions in the assistance programs would have "serious repercussions on our foreign policy and would

endanger our national security objectives."

"America today faces some of its most serious challenges abroad from the adventurism of the Soviet Union and its proxies in such areas as Southwest Asia, the Caribbean, and Africa," Mr. Reagan wrote.

The foreign aid bill for fiscal 1982, which begins Oct. 1, contains \$25 million in military aid and \$53 million in economic assistance for El Salvador.

Duarte Interview

WASHINGTON (WP) — In an interview Wednesday with editors and reporters of The Washington Post, President Duarte said he believes El Salvador is on the road to stable democracy, but he warned outside critics of his civilian-military government that the process involves "cultural and structural

problems that can't be solved in one day."

"I believe at this moment the extreme left has lost the people; it has lost the possibility of being an alternative," he said of the leftist guerrillas. He contended that his government, backed by the military, is genuinely committed to reform and free elections, that it is working hard to curb abuses by the armed forces, and that a growing understanding of these facts by Salvadorean is weakening his leftist opponents.

The key to ending the civil war, Mr. Duarte said, is for all forces in El Salvador, including the leader of the leftist political opposition, Guillermo Ungo, to renounce violence and seek elections. He insisted that the armed forces, despite their history of repression, are committed "as an institution" to holding and respecting "genuine free elections."



President José Napoleón Duarte, in a speech at the National Press Club in Washington during his American visit, pledged to work for the success of the electoral process in El Salvador.

California Sees Victory In Fight Against Medfly

Washington Post Service

LOS ANGELES — After a month without a major outbreak of the tenacious Mediterranean fruit fly, California officials have become so confident of victory over the insect that they have ordered an end to roadblocks around infested zones.

Also, despite the possibility of more isolated Medfly discoveries, the California farmers who feared a major agricultural catastrophe now acknowledge that they have brought in a harvest almost untouched by the insect.

"My guess is that we are probably going to see sales 2 or 3 percent over what we sold last year," said Baker Conrad, information director of the Council of California Growers.

The state now has so many Medfly traps, as many as 50 per square mile in some areas, that state officials say they are confident that they can stamp out further small outbreaks quickly.

The last major outbreak, on Aug. 25 in northeast Los Angeles, seems to be under control. Medfly maggots found Tuesday in a peach tree in Castro Valley, south of Oakland, were inside the northern quarantine zone and were not considered a serious threat.

Highway checkpoints to stop the movement of infested fruit from San Francisco Bay counties will be gone by Oct. 1, said Annie Zeller, a Medfly project spokeswoman, and no roadblocks are planned in Los Angeles.

Jerry Scribner, the Medfly projects manager, has said he will accept in principle a recommendation by the project's technical review committee that spraying stop after two Medfly life cycles have concluded. The committee estimated that one life cycle lasts 54 days.

French Differ With U.S. on Third World Aid

By Bernard D. Nossiter
New York Times Service

UNITED NATIONS, N.Y. — France has sharply diverged from the United States, urging a large increase in aid to promote Third World development.

Claude Cheysson, the French external relations minister, called on developed nations Wednesday to provide "tens of billions of dollars in assistance and to write treaties to protect the prices of raw materials exported by underdeveloped nations."

On Monday, Secretary of State Alexander M. Haig Jr. told the General Assembly that a big outpouring of aid was "unrealistic" and that free markets offered the best route to development.

West Germany's foreign minister, Hans-Dietrich Genscher, took a stance midway between his French and American colleagues. He deplored what he called the "stagnation" in foreign aid but backed an open world trading system.

The outcome after three days of speeches suggests that President Reagan may pursue a lonely path when he meets 21 other govern-

ment leaders at Cancún in Mexico next month to discuss the Third World's plight. Washington not only faces differences with Asian, African and Latin American governments but also with some of its allies in the industrial world.

It was Mr. Cheysson, speaking for the new Socialist government, who most strongly emphasized the gap. He said the world was gripped by an economic crisis and asked rhetorically, "Who can claim that this crisis will be set right solely by the forces of the marketplace?"

"We are living in a world without order, a mad world," he said.

He called for "a system of international agreements" to end "speculation and uncertainty."

This was interpreted by Third World delegates as emphatic support for a major item on their agenda: treaties or international

cartels to raise the prices of the commodities on which many depend for export earnings.

Above all, Mr. Cheysson said, "economic renewal" in the developing world depends on "tens of billions of dollars to be injected wherever they are most desperately needed." Such aid, he argued, would lift the buying power and enlarge the markets of the poor.

The French minister endorsed other goals that the Third World hopes to reach in a "global negotiation" involving all 155 United Nations members. He told the developed nations to grant preferential or lower tariffs to products exported by underdeveloped countries. Some now exist, but the Reagan administration does not like them.

Mr. Haig urged Third World nations to join the General Agreement on Tariffs and Trade, a forum where nations exchange lower trade barriers on a more or less equal basis. A preferential tariff, favoring Third World countries at the expense of their industrial competitors, breaches this system.

Mr. Cheysson proposed an early start on the global bargaining round.

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Weinberger Broadcast Clarified by Pentagon

By Michael Getler
Washington Post Service

WASHINGTON — The Voice of America has broadcast an interview with Secretary of Defense Caspar W. Weinberger followed by an unusual clarification, issued by the Pentagon, of what Mr. Weinberger said.

Mr. Weinberger, who was guest Sept. 16 on the VOA program "Press Conference USA," was questioned about U.S. allegations that the Soviet Union may be involved in use of chemical-biological warfare in Cambodia. The program was not broadcast until Wednesday.

His answers seemed to imply that the United States might be considering either revising treaties banning such warfare or developing an ability to "respond in kind" as a way to deter Moscow.

Mr. Weinberger's lengthy answers appeared to surprise or confuse the reporters who questioned him.

Balancing Force

At one point, Mr. Weinberger said: "One of the things we have to do is to make sure we have some kind of balancing forces and indeed are embarked upon the necessity, I think, to redress this imbalance."

At another point, he said, "Possibly a knowledge that [the Russians] face retaliation in kind might be a deterrent that would prevent these things from ever having to be used."

Asked if he were saying that U.S. participation in the convention outlawing biological warfare is under review, Mr. Weinberger said no. But he added that as the review of evidence about Soviet involvement continued, this "might lead us to make some appropriate recommendations involving the existing treaties."

The United States cannot allow one power to accumulate "mass quantities of weapons without any kind of counterbalancing deterrent," he said.

The program was to have been broadcast Saturday. A VOA spokesman said it was delayed at the Pentagon's request because the Pentagon thought Mr. Weinberger's remarks would "anticipate" a UN debate that may take place this week in the U.S. chargers.

It is known, however, that Mr. Weinberger's remarks also caused

a stir within the State Department concerning what the defense chief said, not just when he said it. Asked if anything else would accompany the broadcast, aired over VOA's worldwide English-language service, the VOA spokesman said the following announcement would be included:

"Since this program was recorded last week, the Defense Department has requested that the following clarification, which the secretary made to members of the panel following the program, be appended to this broadcast:

"The U.S. policy regarding biological warfare is very clear. We have renounced any use of biological and toxin weapons and remain in full compliance with the biological weapons convention."

"Secretary Weinberger refers in several instances to deterrence or retaliation in kind. In these cases, he means redressing the imbalance through the development of an adequate protective posture and the development of a modernization program for chemical weapons, the construction of the first phase of which has been approved by Congress."



Focus on Missiles in Europe

Given the truism that negotiations are preferable to war, either cold or hot, it is welcome news that U.S. Secretary of State Alexander M. Haig Jr. and Soviet Foreign Minister Andrei A. Gromyko have set a date for talks on limiting nuclear missiles in Europe. Similarly, it was encouraging to hear from Richard N. Perle, assistant secretary of defense for national security policy, that the United States will be ready in about six months to enter into strategic arms limitation talks. Both announcements should gratify beleaguered West European leaders such as West German Chancellor Helmut Schmidt. They will now be able to tell their left-wing opposition, "See, the United States does believe in arms control."

Barring a Soviet invasion of Poland, a major intensification of fighting in Afghanistan or something like a 1981 version of the U-2 incident, the theater nuclear talks will begin on Nov. 30. It would be folly to try to predict the detailed outcome of such talks, but it is worth reviewing the broad outline of the U.S. and Soviet positions to try and get a feel for whether there is room for maneuver.

The United States would like the Soviet Union to remove its medium-range missiles, against which there is currently no Western counterforce. Failing that, it intends — West Germans, Italians, British, Belgians and Dutch willing — to install 464 Cruise missiles and 108 Pershing-2s in Britain and on the Continent. The Soviet Union would like to maintain its present advantage. To do this it would agree to stop deploying SS-20s, which are currently being added at a rate of about one every five days, only if the United States would agree not to deploy the Cruises and Pershings.

The Soviet Union has a substantial advantage in theater nuclear forces — more than 3-

1 according to "The Military Balance 1981-1982," which was just published by the International Institute for Strategic Studies. To achieve anything approaching parity, the West must either deploy missiles or persuade the Soviet Union to take out most of its SS-20s, plus older SS-4s and SS-5s and some newer short-range missiles. There is every reason to think that the former outcome is more likely than the latter.

With respect to SALT, Mr. Perle emphasized that the United States would regard negotiations as the beginning of a new process, not the continuation on one that began in the Nixon administration. He said that the United States would insist that a new treaty be verifiable and that it would seek on-site inspection as well as verification by satellites and other so-called national technical means. The Soviet Union categorically rejected a less sweeping approach early in the Carter administration and it has always opposed on-site inspection.

Nevertheless, neither set of talks is totally without promise if the United States takes the right tactical approach. The negotiations should not be used for macho displays of anti-Soviet rhetoric. If they are, it will poison the atmosphere in Western Europe, making it politically difficult for the Cruise and Pershing deployment to go forward, thereby strengthening the Soviet position in the theater nuclear talks. At the same time, the United States should not give away something for nothing. Its stated goals in both sets of negotiations are correct and should not be compromised. If the administration proceeds in a pragmatic, nonideological way, however, there is more to be gained than lost by talking.

INTERNATIONAL HERALD TRIBUNE

Who Will Pay?

When Jimmy Carter revised his economic program yet again in March, 1980, the Boston Globe editorial had two titles. The first, an embarrassing prank, was "Mush From the Wimp." It was quickly corrected to read: "All Must Share the Burden." Thursday night, when President Reagan revises his economic program, not even pranksters will be tempted to revive the first headline.

But there is ample reason to fear that the second won't apply either. This president seems determined to march in straight lines — but at whose expense? Who will pay? Who will share his burden?

We hope that it will not, after all, be those least able to pay: poor people and distressed cities already struggling to stay afloat.

A character in "Doonesbury" recently bragged about the Reagan program by saying, "No one suffers but the poor, and they're used to it." That's not just comic-strip sarcasm. The burden Mr. Reagan has already set out is not equitably shared. For example, federal grants to cities and states account for only 14 percent of the budget, says the Joint Economic Committee of Congress — but two-thirds of the budget cuts fall on those programs. And that's before the \$16 billion in additional cuts that Mr. Reagan has ordered.

The economy is in trouble and there's no way to rescue it without pain. Mr. Reagan earned the right at the polls to try his way. And though it is far from certain he is right, grant him his assumption that the right course is to prove Washington can be trusted to push steadily toward a balanced budget. But there are several ways to do that, and the administration rejects all except one.

Probably the most obvious course is to modify the mammoth, poorly targeted new tax cut. No dice, says Treasury Secretary Reagan: "Spending reduction is the only route to a balanced budget."

Then why not slow down a bit on the rapid infusions of defense spending? The Pentagon

needs increases, but must they be so fast? Yes indeed, says the administration. Though he needs to cut \$91 billion in three years, the president is asking defense to account for only \$13 billion.

Another way to close the deficit would be to slow civilian spending for the upper and middle classes — by adjusting farm subsidies, overgenerous automatic increases in Social Security or tax breaks for homeowners. Mr. Reagan deserves credit for trying last spring to sweep out the holy Social Security. But the political gods thundered, and he's not likely to try again.

Then what's left? If the administration is unwilling to salvage some more revenues from the tax cut, or find economies in defense increases or undo extravagance in politically popular programs, who is left to share the burden? The poor.

Anti-hunger spending is rising faster than estimated. No problem. The answer, it appears, is less money (for food stamps and pregnant mothers) — and less food (for school lunches). Why don't those welfare bums get a job? One reason is that the CETA program to create jobs is about to die. All this is an astounding accomplishment.

A new reality has been created. The Soviet Union still tries to deal with Poland through the existing channels, but this is not effective because the relevant reality now lies outside the effective reach of the Communist government in Warsaw. Frustration is evident in what the Soviet Union is saying and doing about Poland: it has found that it cannot reach what it wants to reach if it is to have an effect upon events in that country.

Danger of Backing The Wrong Horse

By Stanley Karnow

WASHINGTON — President Reagan has committed the United States to the support of authoritarian regimes in developing countries on the theory that they represent the best defense against Communism. But his simplistic policy unwittingly encourages the very extremists he hopes to destroy.

A case in point at the moment is the Philippines, once the proud possession of the United States in the Pacific, whose corrupt and repressive oligarchy headed by President Ferdinand Marcos recently received a big boost from the Reagan administration.

On a visit to Manila not long ago, Vice President Bush hailed Mr. Marcos for his "adherence to democratic processes," and that extravagant praise has since caused a serious polarization of the forces in the Philippines.

Opposition

Mr. Marcos is opposed by three principal groups — moderate politicians, left-wing radicals and Moslem separatists operating mainly in the southern islands of the archipelago. The leftists not only denounce Mr. Marcos, but they are hostile to the United States. They have gradually been building up a guerrilla army, which now comprises several thousand regulars.

The moderates are also trying to unseat Mr. Marcos. So are the activities of Imelda Marcos, the president's handsome wife. One story has it that she laid out \$6 million a couple of months ago to buy a collection of rare antiques in New York.

True or not, such tales are

radicalizing students, Roman Catholic priests and others who used to believe that Mr. Marcos could be opposed legally. Horacio Morales is an example of the trend.

A former member of the Marcos economic staff, he disappeared four years ago, after being elected one of the country's outstanding young men by the Junior Chamber of Commerce. He recently surfaced as an activist in a clandestine Communist guerrilla band, excommunicating Mr. Marcos for his key element in the relationship.

Formed a Front

But with the Reagan administration giving Mr. Marcos its unalloyed endorsement, the moderates have rapidly been losing ground to the radicals, who are currently stepping forward to assert themselves as the only effective resistance movement.

In time-honored Communist fashion, the radicals have formed a front organization, the National Democratic Front, in an effort to mobilize

frustrated moderates as well as Moslem insurgents under their aegis. The tactic is undercutting the middle-of-the-roaders.

Benigno Aquino, a former senator and a moderate foe of Mr. Marcos now in exile in Boston, exemplifies the gloomy prospects for his faction. "Reagan," he told me the other day, "has blown us out of the water."

The radical cause is being helped by the worsening economic situation in the Philippines. Unemployment is on the rise, and foreign investment is declining. The country is in hock to the tune of \$14 billion, and Mr. Marcos has no remedy for the economic deterioration.

Hot Cash

Wealthy Filipinos, smelling the rot, are illegally sending their money out of the country, reportedly at the rate of some \$75 million per month. They are contributing to the real estate booms in places like Singapore, Hawaii and California.

An investment group armed with a good deal of hot Philippine cash recently paid a record \$475 million for a piece of property in Hong Kong. Many of these affluent Philippine businessmen are intimates of Mr. Marcos, and their shenanigans are tarnishing the regime's image.

Rare Antiques

So are the activities of Imelda Marcos, the president's handsome wife. One story has it that she laid out \$6 million a couple of months ago to buy a collection of rare antiques in New York.

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Subversives

"subversives to American inter-

ests" and demanding the crea-

tion of a "revolutionary coalition."

The United States gives the

Philippines some \$250 million

per year in military and eco-

nomic assistance, and the

Carter administration used the

program to exert pressure on

Mr. Marcos to display a mea-

sure of leniency.

Mr. Aquino, for instance,

was released from jail after

eight years of confinement in

order to undergo a heart operation in Texas. He had been ar-

rested on charges of fomenting

violence.

Mr. Marcos, who declared

martial law after seizing power

nearly a decade ago, recently

made some cosmetic changes.

He lifted martial law and held

an election, in which he won an

indecisive 38 percent of the votes.

Nobody of any conse-

quence ran against him.

The election was a blow to

the moderates, since it gave Mr.

Marcos a degree of legitimacy,

and thereby intensified the

appeals of the radicals, whose

illicit opposition is attracting

support.



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That Solves the Problem of How to Deal With Authoritarian Regimes.

New Reality Outweighs the Old in Poland

By William Pfaff

PARIS — No one seems to have noticed that what Poland's reformers meant to accomplish has already been done. They now need to confirm their achievement. Poland's people have been given a voice. Their will is felt. Solidarity's elections are democratic elections. The Communist Party has even opened itself to free debate and contested elections. There is open debate in Poland. There is no longer a monopoly of power. All this is an astounding accomplishment.

A new reality has been created. The Soviet Union still tries to deal with Poland through the existing channels, but this is not effective because the relevant reality now lies outside the effective reach of the Communist government in Warsaw.

Frustration is evident in what the Soviet Union is saying and doing about Poland: it has found that it cannot reach what it wants to reach if it is to have an effect upon events in that country.

After the War

The Poles have been able, ultimately, to change their relationship with their own Communist authorities and with the Soviet Union, by deliberately creating a second Poland — another, popular, Poland, with a parallel existence to official Poland, with which others now must deal.

For a long time after the war, there were Poles inside the country in exile, who argued that it was necessary to come voluntarily to terms with the Soviet Union, and with the imposed Communist system. In return, they looked for modest reforms in that system. They considered themselves realists, "positivists." There was history behind their arguments. Poles have always had to deal with the consequences of their geographical misfortune, to live between Russians and Germans.

A Measure of Autonomy

Collaboration with the Communist Soviet Union was, even before World War II, a program which some Polish conservatives could support, as well as left-wing Poles. The conservative argument was that since the Soviet Union was weaker than Germany, and Poland's survival depended upon a balance between the two, Poland had to cast its weight with the Soviet Union. Since the war, the "realistic" argument has been that Poland's alternatives to a rapprochement with the Soviet Union, the "western powers" having long since abandoned Poland.

The ambassador has conveyed to Santiago, quietly, her profound personal regret at what she takes to be the coincidence of her visit and the expulsions. It goes without saying, she says, that this administration does not condone any arbitrary legal process anywhere, including that which victimized Mr. Castillo. The trouble is that too much in this regard goes — too often — without saying by spokesmen for the Reagan administration.

THE WASHINGTON POST.

In the International Edition

Seventy-Five Years Ago

September 25, 1906

PARIS — The tragic death of M. Lipietz, who succumbed to heart failure due to the excitement produced by a hostile demonstration against those employers who failed to carry out the terms of the law on the weekly day of rest is the sensation of the day in Paris. It has brought the question of the Sunday day of rest prominently before the public. The République Française comments: "One could understand that citizens should indulge in manifestations at public meetings to obtain a reform. But on the present occasion the reform has been voted and the representatives of public authority are superintending its execution. What do the people want more?"

'Quiet Diplomacy' in Action

Fifty Years Ago

September 25, 1931

MADRID — A century-old feud between two branches of the Bourbon family has come to an end with the reconciliation of former King Alfonso of Spain and Prince Don Jaime of Bourbon, respectively heads of the rival sections. According to reliable sources, Don Jaime formally renounced the claim to the throne of Spain, inherited through his grandfather, the Infant Carlos. The renunciation, made at Fontainebleau, is believed to have been effected in favor of the Infante Don Juan, Alfonso's son, now a naval cadet at Dartmouth. As Alfonso has manifested a desire to abdicate in favor of his son, the reconciliation is regarded as a consolidation of the monarchist front against the new Spanish Republic.

In the 1950s and 1960s, repeated attempts were made in Poland to convince the Communist authorities there and in the Soviet Union to grant certain internal reforms that would not affect the country's external commitments to the Warsaw Pact and to Soviet military security. These attempts failed. Dissidence was repressed. Concessions

ows 40 percent of the shares of DPMS with 60 percent owned by Nigerian interests. Thus it was DPMS that reported profits in Nigeria this year, not IBM, which, however, did participate as a shareholder.

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Tape Reveals Nixon Wanted 'Thugs' Used Against Anti-War Protesters in 1971

By Seymour M. Hersh
New York Times Service

WASHINGTON — A newly disclosed White House tape recording shows that President Richard M. Nixon, angered over widespread civil disobedience in Washington during demonstrations in May, 1971, opposing the war in Vietnam, endorsed a suggestion that "thugs" from the Teamsters union might be used to assault the protesters physically.

In a wide-ranging conversation on the morning of May 5, 1971, shortly before a third day of demonstrations, Mr. Nixon and H.R. "Bob" Haldeman, then the White House chief of staff, animatedly discussed an idea raised by Mr. Haldeman of hiring Teamsters to "go in and knock their heads off," as the president put it.

"Sure," Mr. Haldeman responded. "Murderers. Guys that really know, that's what they really do ... it's the regular strike-breaker types and all that ... and then they're gonna beat the [obscenity] out of some of these people. And, um, and hope they really hurt 'em. You know ... smash some noses."

There is no evidence that the Nixon-Haldeman conversation resulted in any direct action against

the demonstrators. There is also no evidence that any U.S. law-enforcement agency has investigated the possibility that the president might have authorized a criminal act.

Lawyer's Statement

R. Stan Mortenson, a Washington lawyer who is Mr. Nixon's attorney in matters relating to the White House tape recordings, was provided an oral summary of key portions of the transcript Tuesday and was asked for comment. He submitted the following statement Wednesday:

"The New York Times claims to have come into possession of a purported transcript of a conversation between Richard Nixon and H.R. Haldeman on May 5, 1971. If The Times has an authentic transcript, there apparently has been an unauthorized disclosure in violation of a federal statute, court order or regulation. Who committed this act is known only to The Times at this point."

"What The New York Times has appears to be a transcript prepared by the Special Watergate Prosecution Force or another investigating group. It does not conform to the transcript prepared for official court procedures."

Mr. Haldeman, reached by telephone in Los Angeles, said: "I have no comment. I really don't care much what's on the tapes. They're 10 years old."

The 26-page transcript of the Nixon-Haldeman conversation was among more than 750 pages of transcripts prepared by the National Archives in response to a subpoena filed in 1974 by attorneys for about 1,200 protesters who were arrested on the steps of the Capitol on the afternoon of May 5, 1971. Despite intensive litigation over the last seven years, none of the tape recordings or transcripts has been released. U.S. courts have ruled that the arrests — three days of protest were unconstitutional.

Historians at the National Archives have been listening to and indexing more than 6,000 hours of Nixon White House tapes since September, 1978, a year after the Supreme Court ruled that the government had a right to maintain control over the Nixon papers and tape recordings. Such materials had traditionally been considered the personal property of a president leaving office.

The White House tape recording system was first installed in February, 1971, and the May 5 transcripts are the earliest such presidential conversation to be made available to the public.

Mr. Nixon's conversation with the tape recording was no longer relevant, in terms of possible criminal prosecution, because the statute of limitations has expired on possible criminal infractions by Mr. Haldeman and because Mr. Nixon's presidential pardon, granted by President Gerald R. Ford one month after he took office in 1974, was absolute and unconditional.

An official, however, characterized the recording as of potential benefit to the plaintiffs in the civil damage suit that is still pending against John N. Mitchell, who was the attorney general under Mr. Nixon.

Those materials date primarily to the period after June 16, 1972, when the offices of the Democratic National Committee in the Watergate building were entered. This break-in led to the Watergate scandal, trials in which top White House aides were convicted and jailed, and to the resignation of Mr. Nixon as president on Aug. 9, 1974.

Political Rebound

Mr. Haldeman, Mr. Mitchell and Mr. Nixon's domestic affairs adviser, John D. Ehrlichman, were convicted and imprisoned on charges that they conspired to cover up the break-in at the Watergate offices. Charles W. Colson and Dwight Chapin, like Donald H. Segretti, were also imprisoned on charges arising from the 1972 campaign.

Mr. Nixon's conversation with

former members of the Watergate Special Prosecution Force, to whom portions of the transcript were read this week, generally agreed that Mr. Nixon appeared more animated and aggressive in that conversation than he did in the hundreds of hours of tape recordings and transcripts that were made available to the press.

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President Aware

The conversation suggests that the president was made aware of the White House "dirty tricks" prior to the election, a charge he has repeatedly denied.

When Mr. Ehrlichman was told this week of the content of the recording, he acknowledged that he had always "assumed" while he worked in the White House that some of the seemingly spontaneous attacks on anti-war demonstrators by workers wearing hard hats "were laid on," or inspired, by the White House.

Mr. Ehrlichman, in Santa Fe, N.M., recalled that the former president had always been anxious about protesters, and that he had sought in the 1968 campaign to hire outsiders "to break up demonstrations."

That theme dominated much of the conversation between Mr. Nixon and Mr. Haldeman on May 5.

Mikhail Alexeyev Dies; Philologist, Pushkin Expert

United Press International

MOSCOW — Academician Mikhail Alexeyev, 85, a philologist and expert on the 19th-century author Alexander Pushkin, has died in Leningrad, Tass reported Wednesday.

The agency said that Mr. Alexeyev was instrumental in building contacts with other countries and societies interested in studying Russian literature. His writings include "I.S. Turgenev and Music" (1918), "An Outline History of Anglo-Russian Literary Relations, 11th-17th Centuries" (1937), "The English Language in Russia and the Russian Language in England" (1944), and, as co-author, "Shakespeare and Russian Literature."

Tung-Type Guy

"Are they really any good?" Mr. Nixon asked. Mr. Haldeman replied that "this guy's real conspirator-type ... thug-type guy ... This is the kind of guy can get out and tear things up."

Mr. Chapin's operatives, Mr. Haldeman said, had worked against Mr. Muskie during one of his early campaign trips to New Hampshire. With the advent of the renewed anti-war protests, Mr. Haldeman said, "they're gonna stir up some of this Viet Cong flag business."

The spokesman said the attack at 7:20 a.m. local time Wednesday on five members of a U.S. mobile training team who were driving to their headquarters occurred about the same time that a bomb exploded inside the Honduran legislature in Tegucigalpa, the capital.

The gunmen escaped and a little-known leftist group, the Lorenzo Zelaya Commandos, later claimed responsibility for both attacks, saying they were meant to "repudiate the presence of U.S. military advisers in Honduras."

It was not clear from the transcript what sort of action the Chapin group planned in connection with the waving of Viet Cong flags by protesters. Mr. Haldeman told the president that Mr. Colson, who was responsible for the White House's political ties to organized labor and special-interest groups, was also going to "stir up" activity "through hard hats and Legionnaires."

"What I suggested he do, and I think that they can get away with this," Mr. Haldeman told the president, "do it with the Teamsters."

Edward J. Sparling
CHICAGO (AP) — Edward J. Sparling, 84, an educator and founding president of Roosevelt University in Chicago in 1945, died Wednesday.

William R. Norwood
HONOLULU (UPI) — William R. Norwood, 72, high commissioner for the U.S. Trust Territory of the Pacific Islands from 1966 to 1969, died Tuesday.

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House Votes Penalties For Naming U.S. Spies

By Steven V. Roberts
New York Times Service

WASHINGTON — The House of Representatives has adopted legislation that would make it a crime to reveal the identity of U.S. intelligence agents working under secret cover, but the bill was immediately denounced by critics as unconstitutional.

Before final passage on a 354-56 vote Wednesday, the lawmakers adopted an amendment that strengthened the bill by expanding the kinds of activities that could be considered criminal. Several congressmen alleged that the amended legislation would infringe the First Amendment rights of journalists and other probes of intelligence activities.

Rep. John M. Ashbrook, the Ohio Republican who sponsored the key amendment, defended its constitutionality by saying: "Conspiracy is not new, nor has it ever been a civil or constitutional right."

'Intent' Provision

There was no controversy over sections of the bill that prohibit persons with access to classified information, such as government officials, from revealing the identity of an intelligence agent. The problem came with those who have no direct access to such information but learn agents' identities through other sources.

As it reached the floor, the bill said that members of the latter group, which would include journalists, could only be considered criminal if they revealed identities with the specific "intent to impair or impede the foreign intelligence activities of the United States."

Supporters of this language argued that the "intent" provision was necessary to protect freedom of speech. "Without this kind of specific intent standard," said Rep. Edward P. Boland, Democrat from Massachusetts who heads the House Intelligence Committee, "this bill would be unconstitutional."

Rep. Ashbrook's amendment removed the "intent" provision and said that persons would be criminally liable if they "had reason to believe" that by revealing an agent's identity they would harm national security interests.

The Ohio Republican argued that President Reagan and the CIA backed his language and that Attorney General William French Smith had judged it "legally sound." The Ashbrook amendment was adopted by a vote of 226-181.

More Vietnam GIs Possibly Exposed To Agent Orange

United Press International

WASHINGTON — New evidence indicates that substantially more Vietnam veterans than once thought may have been exposed to Agent Orange when it was sprayed on populated areas from missions aborted by enemy fire or mechanical failure.

"I don't think anybody quite foresaw that we were dumping chemicals on our own people," Health and Human Services Secretary Richard Schweiker said Wednesday in announcing the finding. Beyond discussing a "substantially larger exposure," he offered no estimate of the number of persons who might have been exposed.

In addition to more than three dozen aborted air missions where thousands of gallons of the herbicide had to be dumped, there is new evidence that it was used along river banks and around the perimeters of military bases, which could have resulted in additional exposure, Mr. Schweiker said.

European Mayors Meet

The Associated Press

MADRID — King Juan Carlos and Queen Sofia Wednesday opened the 14th meeting of European municipalities, attended by 3,000 mayors, to study matters related to decentralization, community budgets and a future European constitution.

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U.S. Suit Seeks Landfill Cleanup By Jersey Firms

The Associated Press

EGG HARBOR TOWNSHIP, N.J. — A landfill that has threatened Atlantic City's water supplies for a decade has been described in a government suit as the most serious environmental problem in the United States.

In a suit filed Monday in U.S. District Court in Newark, the government charged that 10 major industrial companies and nine disposal companies were responsible for the reservoir of deadly chemicals at the 22-acre Price's Pit landfill, which is situated 6 miles (about 10 kilometers) from Atlantic City's boardwalk.

"The situation is alarming," said Charles J. Walsh, an assistant U.S. attorney. "The government has designated this case the most severe environmental problem in the country."

Atlantic City officials are trying to save 12 fresh-water wells that provide more than half the city's daily summertime water needs. The Environmental Protection Agency says industrial wastes dumped in 1971 and 1972 are seeping into the great Cohansey aquifer of the Pine Barrens, one of the East's purest and most plentiful groundwater supplies.

President of Finland Is Ill and May Resign

By Werner Wiskari
New York Times Service

NEW YORK — President Urho Kekkonen of Finland has been on medical leave since Sept. 11, and his close associates are said to believe that the 81-year-old leader, who is in his 26th year in office, may soon have to resign.

The president, who has been suffering from persistent disturbances of the blood supply to his brain, is to leave his leave until Oct. 10.

A Finnish diplomat said a determination of Mr. Kekkonen's ability to return to work was expected to be made by them. But the diplomat added, there appears to be growing doubt in Finland that the president will be able to serve out his full six-year term, which has more than two years to run.

The acting president is Premier Mauno Koivisto, a 57-year-old Social Democrat who, according to public opinion polls, has long been favored to succeed Mr. Kekkonen in the next elections.

But Foreign Minister Paavo Vayrynen, chairman of the president's agrarian Center Party, has vowed to do everything in his power to deny the presidency to Mr. Koivisto, who, if elected, would be the first leftist Finnish chief of state.

The foreign minister charges that Mr. Koivisto is too inexperienced in foreign policy to succeed Mr. Kekkonen, who is noted as an ardent practitioner of a policy of neutrality and friendship with all nations, particularly the Soviet Union. Mr. Vayrynen is backing Ahti Karjalainen, a Center Party member and a director of the Bank of Finland, who has served as ambassador and foreign minister.

President Kekkonen has suffered from occasional lapses of memory for two or three years, causing some delays in consideration of matters of state, but these lapses have increased in severity.

A medical bulletin issued last week said he had persistent cerebral insufficiency, or disturbance of blood supply, and his doctors said the symptoms included memory lapses and absentmindedness.

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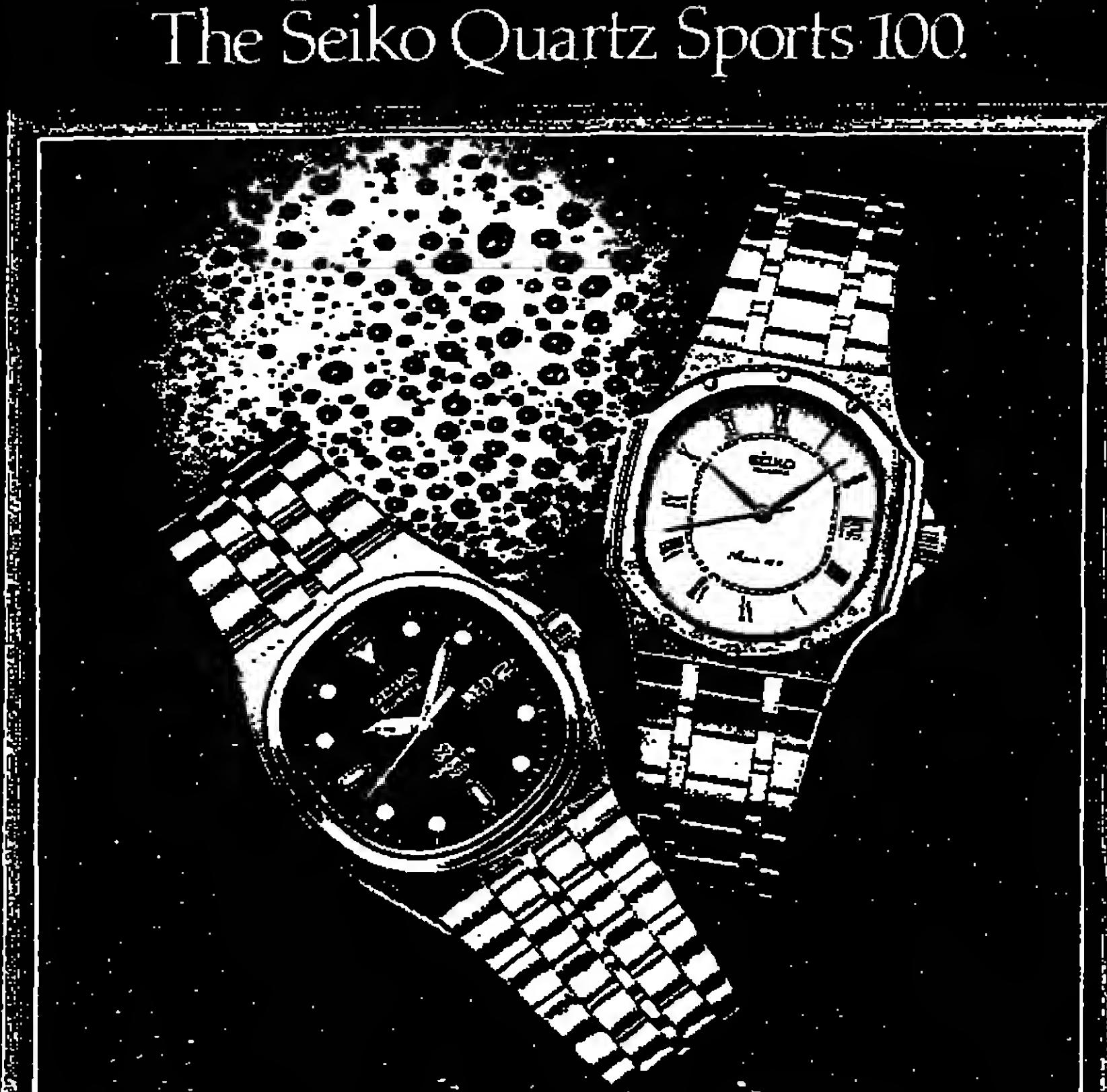
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Photography

By William Borders

New York Times Service

LONDON — The fifth Earl of Lichfield, a glamorous and very successful photographer, has long been known as a ladies' man. And so it seems entirely fitting that he has now published a book full of pictures of some of the most beautiful women in the world.

A second cousin of Prince Charles and brother-in-law of the Duke of Westminster, the 42-year-old earl also moves easily in the world of such people as Bianca Jagger, Natalie Wood and Britt Ekland, all of whom are among the 121 beauties in his book. "In my line of work one simply meets a great many beautiful women," explained Lord Lichfield, who has a trim bearing that recalls his days at Sandhurst, the royal military academy. "I enjoy being with them and I enjoy photographing them."

In a characteristically grand gesture, he launched the picture book, which is called "The Most

Courtesy Photo
Photographer Lichfield

Beautiful Women," at a glittering ball, and nearly two dozen of his beautiful women were there, including the Duchess of Roxburgh, Princess Alexandra, Sarah Ferguson, the actress, and Dewi Sukarno, the widow of the former Indonesian president.

British Royal Family

Besides beautiful women, Lord Lichfield's specialty is royalty, particularly the British royal family, whom he began photographing when he was 14 and the queen was watching a cricket match at Eton school. That picture was against the rules, and as punishment for taking it, a school monitor confiscated his camera.

The official photographer for the group portraits at Buckingham Palace after the wedding of Prince Charles and Lady Diana in July, Lord Lichfield at one point silenced the collection of crowned heads of Europe with a tin whistle. "There were 37 people in that picture, and you didn't have time to get it right," he explained. "I knew once I had lined them up they'd begin to chatter. So I played along the whistle, and it did the job."

Lord Lichfield, whose mother was a niece of Queen Elizabeth the Queen Mother, is known professionally as just plain Patrick Lichfield. But inevitably, his royal and aristocratic connections have contributed to his success. The jacket of his book describes him as "a talented aristocrat" and the noble aura certainly spills over into his advertising photography, which is the most lucrative part of his work.

"But nobody is going to come in here and pay me money for my pictures just because of who my family is," he said in an interview.

view in his studio, an ivy-covered cottage in the chic Campden Hill section of Kensington.

By the extremely conservative standards of British society's very top drawer, Lord Lichfield, who has a tattoo on his right arm and wears cowboy boots and a gold chain around his neck, must seem almost raffish. But he says that what you see now is a considerably settled-down version.

During his fast-living bachelor life in London's Swinging Sixties, he was regularly seen—not only here, but in New York, Paris, Beverly Hills and almost everywhere else—escorting beautiful models and actresses. When Bianca and Mick Jagger got married in 1971, it was Lord Lichfield who gave the bride away.

Some of his former girlfriends took in the "beautiful women" book; their photographs having been selected from the million negatives he has accumulated. "If you are a photographer and you are going out with a woman, it is natural to take her picture," he explained.

But his life became rather less flashy (though no less hectic) with his marriage in 1975 to Lady Leonora Grosvenor, a daughter of the Duke of West-

minster.

The duke, who has since died, passing the title on to Leonora's 29-year-old brother, was thought to be the richest man in Britain. The vast Grosvenor estate owns much of central London, including big chunks of Mayfair and Belgravia.

When Lord Lichfield finally married at the age of 35, there were 1,400 guests at the wedding, including not only Queen Eliza-

beth II and most of the royal family, but also Constantine, the deposed king of Greece, and several of the bridegroom's former girlfriends.

"Since being married, I think I have quite naturally moved back into the more traditional milieu of my family, which is the same milieu as my wife's family," he said. "My wife is a very much more private person than I am, and she is not accustomed to all the personal publicity that I have given accustomed to."

The Lichfields now have three children and live in a very stylish apartment in Eaton Square and at Shugborough Hall, the Lichfield ancestral home in Staffordshire, a 17th-century mansion set in an estate of 10,000 acres.

150,000 Miles A Year

"I have a great fear of being 'unbusy,' of a day when the phone might stop ringing and no one would want me to do anything more," he said. "Besides, there is great pleasure in going off to places like Kenya to photograph beautiful women." His jets add up to more than 150,000 miles a year, he said.

Sensitive to suggestions that he is frivolous or treacherous, Lord Lichfield is proud of another book that is about to be published, "Lichfield on Photography," which deals with the art, science and psychology of how to take a good picture. And he is also planning a sequel to the beautiful woman volume.

"But I don't know quite what the title of the next one should be," he mused, adding with a whoop of laughter, "It certainly wouldn't do to call it 'The Second Most Beautiful Woman' would it?"

400 Wedding Guests

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When Lord Lichfield finally married at the age of 35, there were 1,400 guests at the wedding, including not only Queen Eliza-

Potables

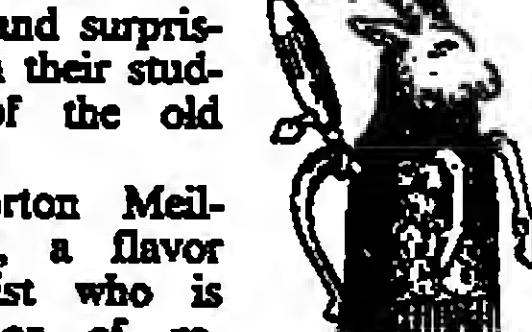
What's in Beer? 850 Things, Including Hint of Banana

By Richard Scovro

New York Times Service

NEW YORK — Beer has been called the working man's champagne, the baseball fan's indispensable companion, and the most palatable form of a vegetable diet.

But with all of its earthy familiarity, beer is only now beginning to yield the secrets of precisely what makes it taste the way it does, and the people who make it are finding that there is much new and surprising in their studies of the old brew.



of — such substances as dimethyl sulfide, isophumulone, isocarylate, ethyl hexanoate, ethanol, diacetyl, pentanediol, polyphenols, fusel alcohols and such acids as acetic, butyric, isovaleric and octanoic. The brewers insist that these substances are not harmful to people, at least not at the levels at which they occur in beer — except, perhaps, ethyl alcohol, the fluid that makes people drunk. Many physicians and scientists maintain that ethyl alcohol, which constitutes less than 4 percent of beer (by weight), may be harmful to the liver if consumed in enough volume.

Other compounds identified in years past are under suspicion. Among them are nitrosamines, which are often found in bacon and are known to cause cancer in laboratory animals. Since chemists identified nitrosamines in a number of foreign and domestic beers in 1978, brewers have made an effort, largely successful, to reduce or eliminate the chemical. It has never been regarded as a flavor factor.

Certain Additives

Some beers may also contain certain additives, such as calcium disodium ethylene diamine tetraacetate, which prevents beer from gushing out of bottles when they are opened; sodium metabisulfite, which prevents oxidation; and N-hepti-p-hydroxy benzoate, a kind of preservative. Meilgaard emphasized that these are not a part of flavor chemistry either, and noted that his brewery uses no added preservatives.

The research of flavor chemists has produced some surprising results. For example, Meilgaard had

always regarded alcohol as almost tasteless. "To our surprise, we found that it had warm and pleasant flavors, once they had been fully purified."

Other research suggests that dimethyl sulfide tastes like cooked sweet corn. Indeed, it occurs in corn, but its presence in beer comes from another source, malt, which is sprouted barley. Some beer drinkers claim to be able to taste the dimethyl sulfide in their favorite brand, according to Meilgaard.

Isophumulone is a dominant flavor factor in most beers, along with fusel alcohol and carbon dioxide, said Meilgaard. Hops naturally contain humulacrine. The humulone changes slightly and becomes isophumulone when the hops are boiled in the brew kettle.

Isocarylate, a flavor component which occurs naturally in bananas, and ethyl hexanoate, which occurs naturally in apples, are usually referred to as the banana esters and the apple esters. An ester is formed when alcohol and an acid are formed in fermentation. Some beer drinkers say they can taste a bit of apple, but those who claim to taste bananas in their beer are rare.

According to Meilgaard, diacetyl and pentanediol produce a buttery flavor, the polyphenols are astringent and "tee-hic" and isovaleric acid, a hop derivative, tastes "cheesy." The amino acids and peptides vary in their flavors, running from "broth-like" to "bit-

ter." For hundreds of other compounds, the taste factor has not been determined.

Efforts to determine what was really in beer and caused it to taste the way it did started in Germany in the 1920s. Researchers there predicted they might find as many as five or 10 chemical compounds in it. By the 1960s, after the invention of gas and liquid chromatographs, machines able to separate and determine infinitesimal levels of chemicals, researchers were guessing that there might be 100 or more compounds in beer.

"But I don't know quite what the title of the next one should be," he mused, adding with a whoop of laughter, "It certainly wouldn't do to call it 'The Second Most Beautiful Woman' would it?"

When Lord Lichfield finally married at the age of 35, there were 1,400 guests at the wedding, including not only Queen Eliza-

Movies

Costly West German Saga Stars U-Boat

By Chris Catlin

Review

BONN — Looking just like its Nazi German foreunner, a re-created U-boat has just been launched on a daring and controversial mission.

The submarine, U-96, is the undisputed star of the West German film industry's costliest production to date, "Das Boot" ("The Boat"), now showing in more than 100 cinemas in West Germany.

The film's message contradicts the warlike philosophy that sent U-boat wolf packs a generation ago under orders from Adm. Karl Dönitz to "kill and keep on killing."

But there is still a hint of aggressiveness about the 25-million-mark venture (about \$31 million). Instead of harrying Allied convoys, this German submarine is out to conquer the world's cinema screens.

110 Countries

The Munich filmmakers, Bavaria studios, have sold the 2½-hour epic for showing in more than 110 countries and are already toying with the hope of Oscar nomination.

Once the dubbing teams have finished, the U-boat's "Kaleen," German naval slang for "lieutenant-commander" — and his battle-weary crew will be mouthing their lines in English, French, Italian, Japanese and Spanish. Success abroad is vital if the film is to make a profit, the producers say.

Although box office receipts on the first weekend of the film's release earlier this month were a record 3.5 million marks (\$1.5 million), Bavaria says production costs could never be recouped in West Germany alone.

Much depends, says a company spokesman, on the reception in the United States — where the distributor will be Columbia Pictures. The plan is for audiences in the United States, Western Europe, and elsewhere to be seeing "The Boat" by early or mid-1982.

Many might find the idea of a German-made war epic alien, even distasteful. Yet, unlike many of the films made by the victor powers, "The Boat" deliberately hammers away at the tragic waste of war.

Only a quarter of the 40,000 U-boat crewmen survived the war. For the film's director, Wolfgang Petersen, the physical and psychological toll is a central theme.

Story Line Sparse

"That's what we want to show in the film," he told the film's actors. "It is just unimaginable what was done to these people in a U-boat war. . . . How they were exploited, demoralized and tortured."

The story line is sparse. The U-96 patrols the At-

lantic in the autumn of 1941, sinks a tanker and other ships in an Allied convoy, and is itself hunted by British destroyers.

The members of the crew repeatedly endure the nightmare of being depth-charged; they narrowly escape after their submarine hits the seabed near Gibraltar, and finally struggle back to base at La Rochelle, in occupied France.

An Allied bombing raid catches them before the U-96 is back in the safety of its pen. The *Kaleen* and many of its crew are killed.

The men are depicted as anything but the committed Nazi warriors envisaged by Dönitz, who died at 89 last December while "The Boat" was still being made.

They deride the inflated rhetoric of their leaders in Berlin, show more than grudging respect for their British adversaries and adopt the British army song "It's a Long Way to Tipperary" as their own.

When survivors unexpectedly appear on the deck of the stricken Allied tanker after being hit by a final U-96 torpedo, the submarine's crew is horrified. One man on the conning tower breaks down and weeps.

It is the accuracy, not the message, of the film, that has given rise to the controversy in West Germany.

Unthinkable Changes

Lothar-Günther Buchheim, author of the best-seller on which the script is based, has dissociated himself from the film and accuses Petersen of making "unthinkable" changes to the original story.

Buchheim, a war correspondent who served aboard the original U-96, says scenes of panic as depth charges tear givets from the hull are "horribly far from reality."

Other critics complain that submarines such as the U-96 did not have riveted seams, but were welded together.

The answer of Bavaria studios is that U-boat veterans say the film is exactly right — a view echoed by the former chief engineer on the U-96, Friedrich Grade, who said that the technical re-creation of the U-96 was "good, even excellent."

The consensus among critics, too, has been that the show is stolen by the skillfully photographed image of the U-96 itself, for which a series of models and mock-ups was used.

But perhaps the definitive verdict has still to be passed by the real-life *Kaleen*, Heinrich Lehmann-Wittenbrock, 69, who will not see the film until he returns from holiday.

An acquaintance says the much-decorated war veteran is at present cruising somewhere in the Mediterranean — this time on a yacht.

The story line is sparse.

"That's what we want to show in the film," he told the film's actors. "It is just unimaginable what was done to these people in a U-boat war. . . . How they were exploited, demoralized and tortured."

The story line is sparse. The U-96 patrols the Al-

NYSE Nationwide Trading Closing Prices Sept. 24

Tables include the nationwide price up to the closing on Wall Street.

Stock	High	Low	Div.	P/E	Yld.	Close	Closes		Stock	High	Low	Div.	P/E	Yld.	Close	Closes	
							Mon	Tue								Mon	Tue
ABCO	2.20	2.15	.00	10.0	4.5%	2.15	2.15	2.15	ABCO	2.20	2.15	.00	10.0	4.5%	2.15	2.15	2.15
ABCO	2.20	2.15	.00	10.0	4.5%	2.15	2.15	2.15	ABCO	2.20	2.15	.00	10.0	4.5%	2.15	2.15	2.15
ABCO	2.20	2.15	.00	10.0	4.5%	2.15	2.15	2.15	ABCO	2.20	2.15	.00	10.0	4.5%	2.15	2.15	2.15
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Banking and Finance in LATIN AMERICA



GOING FOR THE MONEY — Floating cranes move toward an oil-drilling site off Venezuela. Thanks to oil, the nation is expected to show a trade surplus of \$5 billion to \$6 billion this year.

Resources Attracting Investors to Region

By Pamela Bayless

PETROLEUM, precious metals, copper, iron ore, coal, hydroelectric potential, strategic metals. Latin America's natural wealth has made the region the top investment choice in the developing world. It receives 56 percent of a total \$95 billion invested.

The region's strengths range from forests and fertile plains for agriculture, once the leading investment area, to a 7-percent average annual growth rate, which creates a large market for manufactured goods. And some of the world's largest mineral and energy resources demand the construction of vast infrastructures in uninhabited tropical and mountainous terrain.

The kinds of investment vary from country to country, and the risk escalates in areas of political instability. Oil-rich countries like Mexico and Venezuela can afford to turn a nationalistic cold shoulder to foreign investment in certain sectors, even though Mexico is experiencing record levels of such investment. Formerly left-leaning regimes such as Chile and Peru are now courting foreign investors to help rebuild a free-market economy.

Chile's economists, the "Chicago boys," have encouraged foreign investors with one of the developing world's most liberal investment charters — low interest rates, low taxes, little government interference.

Bolivia sees foreign investment in mining, oil, gas and farming as a key to its future.

In some countries, bargain sales crop up

as formerly state-owned companies are put up for acquisition. Chile's Corfo, the development arm, has offered its last seven firms, including a fishery and wood products company, and one bank along with 40 percent of the state steel producer. Near-bankrupt companies in Argentina — airlines, appliance companies, agribusinesses — are on the auction block. Even the Venezuelan Development Corp. is selling off 60 concerns, ranging from a cement company to hotels.

In Brazil, multinationals who fueled the "economic miracle" of the 1970s now find an economic nationalism that makes them less than welcome, with a law expected soon to lessen their autonomy. The exception is in energy projects; indeed, nearly all net importers of oil (and some exporters) are encouraging foreign investment in the energy sector.

Iron Ore

Brazil presents the largest opportunity in the mining sector. The country has let it be known that foreign companies may help develop and exploit its "treasure trove" of minerals, the Serra dos Carajás, in the Amazon jungle near Belém. Literally stumbled upon by a Brazilian geologist forced to make an emergency helicopter landing in 1967, Carajás may yield \$1 billion to \$15 billion annually in mineral exports after 1990, enough to make Brazil a leading mineral exporter.

Carajás contains 18 billion tons of high-quality iron ore deposits — 11 percent of world reserves — which should produce 35 million metric tons of iron ore alone by

1985. In addition, there are 1 billion tons of copper, 60 million tons of manganese, 40 million tons of bauxite, 9,240 tons of tin, 47 million tons of nickel and 100 tons of gold. Zinc, lead, tungsten and uranium exist in unknown quantities. Known reserves alone would command \$543 billion at present prices.

The government estimates that the Carajás project will demand \$61 billion for implementation over 15 years, including \$34 billion for massive development of a 4,000-megawatt hydroelectric dam, 23 mining and refining industries, a 560-mile railroad and an ocean port, and agribusinesses. The government has already committed \$3 billion to infrastructure and extraction costs.

International loans will be needed, and foreign companies will find a place in joint ventures for plant implementation and technology for minerals extraction and processing. While the government says it is open to foreign capital and is giving concessions such as an exemption from corporate tax for the first 10 years and heavily subsidized energy costs, the plans to bring in foreign investors have caused controversy among Brazilians.

On a much smaller scale, Chile, with one-fourth of the world's copper reserves, encourages foreign investment in the mining sector. Although long-term copper price projections have been discouraging, some attractive fields in state domain are now open to international investment.

The state-owned Mineroperú wants to en-

(Continued on Page 10S)

Miami Becomes a Latin Business Center

A SWIFT transformation has taken place in southern Florida over the last 25 years. Sunny Miami, the southernmost city of the United States, has become the northernmost city of Latin America.

It began in the 1950s with the flight of Cubans from Fidel Castro's regime, until today the 1.7 million population of Miami-Dade County is 40 percent Spanish-speaking. The business expertise, connections and cultural links the Cubans brought have made Miami "the bridge" — the perfect place to do business with Latin America.

No longer a sleepy port city of Spanish stucco and palm trees, Miami hums with activity. More office towers reflecting bright sunlight are rising continuously along Brickell Avenue and Biscayne Bay to house major banks and financial institutions; a World Trade Center is in the works.

There is nothing *manana* about Miami. The city moves. Some 2.8 million international visitors will descend on Dade County this year, 1.3 million of them Latin Americans, who will spend an estimated \$1.9 billion. (Dude's projected international tourist revenue will be \$4.2 billion, up from last year's \$3.6 billion.) They come to "Latin America's largest shopping center" to stock up on cloth-

ing, color TVs, and all manner of household items. In all, a couple spends an average of \$100 per day on a 15-day trip.

They come increasingly to bank; an estimated \$4 billion in "flight capital" finds haven in Miami banks, whether from political or economic turmoil at home, the gambling casinos of nearby Nassau or the illicit drug trade. And they come to invest: Latinos are buying everything from pied-a-terre luxury condominiums on the bay and undeveloped land to industrial properties and Florida state banks for investment.

Fueling Miami's fantastic growth have been the financial institutions, many open since the 1978 International Banking Act (IBA) and the Florida state legislature with loosened constraints on foreign banks. Some 75 foreign banking institutions, with an estimated \$2.3 billion in assets, now vie for the lucrative business of deposit taking and financing foreign trade. On Dec. 3, Miami's international banks will be able to open International Banking Facilities to tap the vast "offshore" Euromarkets.

"Miami is becoming the financial center for Latin America; nothing will reverse that trend," says Nicholas Cross, manager of Lloyds Bank International Ltd., in Miami, since passage of the IBA. "It's a great city. We

are leading the recession now being experienced in Argentina. The most probable result will be a partial retreat from free-market policies, with such measures as devaluations, export incentives and import restrictions.

Crisis in Peru

Peru pulled itself away from a foreign exchange crisis and near default less than three years ago. More recently, the economy emerged from a severe contraction under an IMF-agreed austerity program. But Peru may

Argentina's Recession May Be 'Subtle' — but It Runs Deep

A VISITOR to Argentina for the first time may not believe that the country is in a recession. Where are the beggars and the gangs of unemployed that stand on street corners, and isn't Argentina reaping a bountiful grain harvest this year?

The signs of recession in a rich country are more subtle. Restaurants and stores are not filled as usual; job notices draw more applicants, and the fleets of yellow taxi-cabs have multiplied in Buenos Aires as laid-off workers turn to self-employment. "This is a very deep recession," said a U.S. banker. "The government can paint it pink, yellow, green or purple, but that won't change the fact."

The reasons are not immediately obvious. The economic picture is cheerful in several important aspects: bumper grain exports will bring in a trade surplus projected to be as much as \$3 billion in 1981; production of oil and gas is increasing and the country is soon expected to be self-sufficient. The recession arises from fundamental changes in the structure of the Argentinian economy.

New Government

In 1976, when the military junta overthrew the unstable government of Isabel Perón, it called upon a wealthy businessman, José Martínez de Hoz, to be Minister of Finance, and salvage a grossly mismanaged economy burdened by over 30 years of heavy state intervention, inflation, and a high degree of protection for private industry.

He achieved most of his goals: opening the economy to free market forces, clearing away price controls and import prohibitions, slashing import tariffs and freezing interest rates. But the scourge of Argentina's triple-digit inflation persisted.

In December 1978, Mr. Martínez de Hoz adopted a new anti-inflation strategy — multi-devaluations of the peso at a rate slower than inflation. According to theory, this would

gradually make imports cheaper, which would gradually force local producers to become more productive and restrain their prices, which would in turn bring down inflation. In practice, however, he failed to convince the military to carry out an essential part of the theory — divestment of the myriad state-

Bumper grain exports will bring in a trade surplus of as much as \$3 billion and oil and gas production are increasing. The problem arises from fundamental changes in the structure of the nation's economy.

owned companies and a reduction of the government's spending.

As a result, inflation did come down, but only to 88 percent, still much higher than the devaluations, and the peso became increasingly overvalued. The more the peso became

over-valued, the more savers and investors began to fear future devaluations and contemplated exchanging their pesos for dollars. To prevent a massive capital flight, the Central Bank pushed up interest rates to wildly lucrative heights of 20-30 percent over inflation.

Results of Recession

The combination of these policies was enough to drive Argentina into a recession. Manufacturers found that they couldn't raise prices because of cheap imports, while the little cash they could collect went on burdensome interest payments. Some companies cut back production; others stopped manufacturing a product and started to import it; others, including some of the largest conglomerates in the country, declared bankruptcy and dissolved. These corporate failures pulled down about 60 banks in their wake.

When Mr. Martínez de Hoz finished his term in March 1981, the structure supporting the peso promptly crumbled. The first act of the new Minister of Finance, Lorenzo Sigaut, was to decree a 30 percent devaluation. This was enough to undermine investors' faith in the peso and in government promises. Within two months, two successive stampedes of the peso forced Mr. Sigaut into more devaluations to stem a rapid drain of international reserves.

He was finally able to impose some stability on currency markets by establishing a dual-exchange rate. For financial transactions, the peso was allowed to float. For exports and imports, the Central Bank fixed the exchange rate and planned to continue with monthly mini-devaluations.

After six months of crisis, Argentines could finally take stock of the damage: The peso, starting off the year at about P 2,100 to the dollar, was lower by mid-September. International (Continued on Page 9S)

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PARIS, SEPTEMBER, 1981

A SPECIAL SUPPLEMENT

Oil Revenues Thrusting Venezuela, Mexico Into Leading Roles in Area

By Jane Baird

STRANGERS to Latin America often think of it as a homogenous place, where everyone speaks the same language and shares the same cultural heritage, and where all the countries belong to a category known as underdeveloped. Any banker who operates on this simplistic view is doomed to failure, for beyond these generalities characteristics differ widely from country to country.

Venezuela is the country most dependent on oil income, and its oil prospects are reassuring. At current rates of production, its 30 billion barrels of reserves should last for another 25 years. By then, the government will have brought the Orinoco heavy oil belt into large-scale production.

Oil exports are expected to earn an ample trade surplus of \$5 billion to \$6 billion this year, but this surplus will surely drop in coming years. Stagnating oil prices will mean stagnating export revenues. The volume of exports is also being whittled away by expanding domestic oil consumption.

Second Best Risk

International bankers generally rate Venezuela as the second best risk in Latin America after Mexico. Its spreads have been running higher than in Mexico and three-fourths to seven-eights of 1 percent over Libor. Venezuela should have little trouble in tapping international credit. The total foreign debt is now \$23 billion-\$25 billion (about \$15 billion public sector), but the roughly \$3.5 billion debt service is less than 20 percent of exports.

The banks' major misgiving about Venezuela is that successive administrations have failed to use the tremendous resources from oil to develop effectively the non-oil sectors of the economy. Former President Carlos Andres Pérez (1974-1979) lavished enormous sums on development projects that produced mostly red tape, rampant corruption and a huge import bill. Current President Luis Herrera Campins clamped down on government spending and credit, which helped to bring in trade surplus and slow inflation but at the cost of a recession from which the economy is only now pulling out.

The government is making an effort to improve its bad financial image. A bill is before Congress to restructure the approximately \$10.5 billion in short-term debt into three-to-five-year obligations. Also late August, the administration freed interest rates, which should act to cut down a heavy capital flight seeking higher dollar rates, which had become a serious drain on reserves.

Budget Surplus in Chile

In Chile, economic policies are similar to the recent strategy that José Martínez de Hoz followed in Argentina. The peso has been frozen at P 39 to \$1 since June, 1979, while inflation has been about 65 percent since. Import tariffs have been lowered to a uniform 10 percent, and Chile has been besieged by manufacturers from Brazil and Peru. Interest rates are determined by the market and credit is costly.

But there is a big difference. The Chilean military has made a whole-hearted effort to follow free-market policies, including cutting spending and selling off public enterprises. The government expects to show another budget surplus this year, a feat that is almost unheard of in Latin America. As a result, the Chileans have had more success in dragging down inflation, expected to be 12-14 percent in 1981.

The skies are not completely sunny, however. The most threatening cloud on the horizon is Chile's rapidly widening trade deficit, about \$2.2 billion from May 1980 to May 1981. Manufactured exports have dropped off, and the price of copper has dropped below \$1 per pound, while consumer imports have soared. The trade gap has forced the government to tap international markets for larger loans. The foreign debt is expected to increase from \$11.2 billion at the end of 1980 to \$13.5 billion by the end of 1981, while 1981 debt service is a hefty \$1.2 billion. In addition, industrial production is down to a slow 2.5 percent growth rate, and foreign investment has fallen off because of the over-valued peso.

These problems are not so extreme that they are leading Chile into the recession now being experienced in Argentina. The most probable result will be a partial retreat from free-market policies, with such measures as devaluations, export incentives and import restrictions.

Crisis in Peru

Peru pulled itself away from a foreign exchange crisis and near default less than three years ago. More recently, the economy emerged from a severe contraction under an IMF-agreed austerity program. But Peru may

be headed for a repeat of the crisis if its economy continues along its present course.

International reserves plummeted from an ample \$1.3 billion at the end of 1980 to \$40 million by the end of May 1981. Prices of metals and oil exports and volume outputs of agri-

culture and fish exports have sagged. At the same time, the government is doggedly pursuing a program of tariff-cutting despite the protests of local industrialists. As a result, the trade deficit may amount to as much as \$500 million this year and more in 1982.

International bankers generally rate Venezuela as the second best risk in Latin America after Mexico.

The civilian government of Fernando Belaunde Terry is having little success in controlling its spending. Monetary authorities had originally planned on a fiscal deficit equivalent to 4 percent of GDP this year, but by August the deficit was reported at 7.6 percent and climbing. The administration was also asking Congress for authorization to increase the ceiling on foreign borrowing for the year by 50 percent, from \$1.4 to \$2.1 billion, the highest figure Peru has ever borrowed in one year. Early in the year, the government had announced a \$20 billion 1981-1983 development plan calling for a heavy \$1.5 billion in foreign borrowing. The foreign debt burden is already \$9 billion. If these trends continue, they will not only destroy the long-needed development of Peru's infrastructure and social services, but they will ultimately throw the economy into another tailspin.

Colombia's trade and budget figures are taking a pronounced turn for the worse this year, because of dismal prices for coffee, the leading export and source of government revenue. The current account deficit has reversed from a \$735 million surplus in 1980 to an estimated \$600 million deficit this year, and the fiscal deficit is headed for \$1 billion or more.

Despite Colombia's shortcomings, its international reserves remain well over \$5 billion this year, while its foreign reserves are only (Continued on Page 11S)

Brazil Struggles to Avoid Financial Reckoning Day

LATIN AMERICA is built on a grand scale, from the Amazon jungles to the peaks of the Andes to the vast pampas. Its resources include oil in the trillions of barrels, fertile land, copper, iron ore, bauxite, zinc and tin. Yet most of its people live in poverty. As its resources are immense, so its needs are enormous. As a region, Latin America has become the largest borrower of international capital. In 1980, its Eurodollar borrowing amounted to \$19 billion. This year, the total may be almost twice that. Much of these funds are destined for fantastically productive or lucrative ventures — such as Carajás, the world's largest and most-varied mineral deposits; Itaipu, the largest hydroelectric project; the Orinoco heavy oil belt, with estimated reserves of 700 billion to 3 trillion barrels. The risks are also large. In the 1970s, Peru and Chile approached default but succeeded in rescuing their economies. Bolivia and Costa Rica are teetering on the brink as they frantically attempt to scrape together foreign exchange, roll over payments and renegotiate their debts. The most awesome prospect, however, is presented by Brazil: A Brazilian default could plunge the world financial system into chaos.

By James Wygand

A FAMILIAR anecdote in Brazil tells of the man who owed a considerable amount of money. Payment was due the following day and the man could not sleep. As he paced the floor muttering, his wife lost patience, went to the telephone and called his creditor. "Is it true," she asked, "that my husband owes you a big sum of money by tomorrow morning?" Hearing an affirmative, she responded: "Well, he's not going to pay you." She then turned to her husband and said, "There, now get some sleep and let him pay the floor."

Brazil's bankers appear to be in the same situation as the creditor. For the last two years, Brazil has managed to avoid the day of reckoning on its burgeoning debt service burden, each year by a slightly narrower margin.

The country's debt level is a rather staggering \$60 billion in medium- and long-term financing alone. About 70 percent is in the form of foreign financial credits, which are tied to Libor (the London interbank offered rate) or the U.S. prime rate.

Since these rates have been in the 14- to 20-percent range since 1979, it does not take sophisticated mathematics to determine that Brazil's debt service is weighty. Total interest expenditures on the medium- and long-term debts are expected to be about \$8 billion. Amortization of the principal will be another \$8 billion. Debt service, therefore, amounts to about 60 percent of Brazil's projected \$24 billion in exports this year.

Worse still is the country's "vulnerability coefficient" — the relation of the debt service to international reserves and exports — which will reach more than 60 percent in 1981 from just under 35 percent in 1980. This deterioration is due to a sharp rise in interest expenses, a bunching-up of amortization payments in the 1979-1983 period and a sharp depletion of the country's reserve position.

Most bankers assume (at least in private) that the country will have to approach the banks for a renegotiation of its debt in mid-1982. Even with a debt renegotiation, however, Brazil is in deep trouble.

Just how did a country with the world's highest long-term growth get itself into such a mess? Oil is the facile answer, and it is partially correct. The country does depend on foreign supplies for more than 80 percent of its oil needs. Transportation and distribution systems in Brazil are based almost entirely on automobiles, buses and trucks — that is, oil. Similarly, the country depends heavily on fuel oil to run its industrial sector.

National Euphoria

But it is not enough to blame the rise in oil prices. The 1973 oil price increases arrived at a time of national euphoria. From 1967 through 1973, the economy almost tripled in size as the country's industrial sector registered double-digit growth rates in each of the seven years. The groundwork for what is often called the Brazilian economic miracle was laid in 1964, after the military deposed the government of President Joao Goulart.

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United Mexican States, FF 150,000,000 (1980-1985)
European Economic Community, US \$ 70,000,000 (1980-1995)
European Economic Community, US \$ 26,000,000 (1980-1985)
CIT-Alcatel, FF 150,000,000 (1980-1990 conv.)
Renault, FF 300,000,000 (1980-1985)
CII-Honeywell Bull, FF 225,000,000 (1980-1985)
La Redoute, FF 125,000,000 (1980-1985)
Gaz de France, US \$ 80,000,000 (1981-1986)
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Banking and Finance

World's Banks Fight for Share of Action

The profit picture helps overcome qualms about instability, and most bankers say the long-term outlook is good.

WHEN a developing region has vast, untapped energy potential, high levels of growth and the largest slices of foreign investment, the international banks can't be far behind. Latin America is now the world's largest borrower of international capital, and the world's most aggressive banks are flocking to meet the demand. Moreover, Latin America's banks are heading overseas to set up business in increasing numbers.

"It's a global game now," said James W. Bergford, executive vice president and Western Hemisphere coordinator for Chase Manhattan Bank. "This is not the American ballpark it once was."

The big U.S. money center banks are making the most of their international profits in Latin America: Chase posted 19 percent of its income before securities transactions there last year — \$70 million. Citibank, the largest earner in the region, earned 41 percent (\$150 million) of its international profits in Latin America.

Now other banks of the world are joining in. The continent's oldest bank, the Bank of London and South America (Bolsa), has been a presence for 120 years. Barclays Bank and the Royal Bank of Canada have long-established business. But lately other European, Canadian, and Japanese banks, following trade flows, and Arab consortium banks are entering into the region and finding the climate much to their liking.

Undeniable Difficulties

The profit picture helps bankers overcome their qualms about the region's undeniable difficulties: notorious political instability, endemic high inflation running 58 percent in the region, high debt loads, a declining growth rate (from a high 7 percent average to 6 percent), coupled with one of the world's highest population growth rates, 2.7 percent, a warning of approaching social unrest.

Nevertheless, international bankers insist they are there for the long term and that the long term in Latin America is looking good. "You stay through the hard times as well as the good," says William R. Rhodes, Citibank's senior vice president and senior corporate officer for Latin America and the Caribbean. "Each country has its ups and downs, but all of Latin America is attractive."

Most of the large banks are finding their corporate business is growing in Latin America. Both Citibank and Chase have 60 percent of their Latin business in the corporate sector, with private, mixed and public companies. Latin America has become increasingly dependent on the international private banking sector, and its private sector is bringing the greatest amount of capital into the region. More Latin corporations went directly to the international capital markets than ever in 1980, and found a warm reception.

Mr. Rhodes said, "Local currency business is mainly with the private sector, and that's normally our most profitable business. The spreads are generally greater in the local currency than in Eurocurrencies." Citibank does one-third of its Latin American business in foreign currencies.

Repayment

Nicholas Cross, vice president and manager of Lloyds Bank International Ltd.'s Miami operations, agrees. "It's more risky to lend to the private sector than to the public sector or the banks, but we are equipped to assess risk through our branch network, which knows the quality of the company's management. What's really important is the ability and the will to repay — the balance sheet is history."

Mr. Rhodes and other bankers believe their private sector lending will continue to grow. He sees two trends ahead in Latin American banking — more private sector participation and a greater welcome for foreign private investment.

Loan syndications and public sector project loans remain an important segment to most foreign banks operating in the area, as does business with financial institutions and individuals. But as Mr. Bergford says, "We will have to work harder for increasingly elusive income." Increased competition has led Chase and other banks to pursue income from banking services — trade finance, funds transfers, management fees for loan syndications, corporate financial consulting and mergers and acquisitions, among others.

Bank Expansion

Banks are expanding in Latin America in various ways. One of the most eyebrow-raising was Bank of America's acquisition this year of Argentina's floundering Banco International for \$144.6 million, adding 60 branches to its existing seven and making it the largest foreign bank in that financially troubled country. Other banks entering a country for the first time may decide a branch is

unnecessary if lending is primarily to the public sector; a representative office may do as well.

If

correspondent banking is an important area, a branch may be viewed as competitive with local banks, the potential correspondent clients. Those banks interested in retail operations must evaluate the economy of a target country and its long-term objectives as well as its openness to foreign institutions.

Some countries, among them Colombia, Venezuela and Mexico, don't permit full bank branches or subsidiaries. Citibank is the sole exception in Mexico, since it kept its full-service branch established in 1929, in operation when other banks fled the revolution in the late 1930s.

International Expansion

But while foreign banks are doing their best to garner stakes in Latin America, the region's boldest local banks are making a dramatic move overseas. Their reasons are various. In some cases, it may simply amount to flag-planning without a clear purpose or business plan in mind. But the most aggressive are going with definite goals: to attract capital flows, to the home office, to continue growing through market expansion, or to follow domestic business interests overseas.

In doing so, they are building networks with access to international capital markets and establishing their credibility in the world banking community. And, not incidentally, they are posing a challenge of their own to the international banks with Latin American operations.

Mexico's four largest banks are now established in New York and London. Most of them went abroad with a clear purpose, to funnel money home to help alleviate a capital shortage in Mexico. The oldest Latin American bank away from home is Banco Nacional de Mexico (Banamex), which opened an agency in New York in 1929. But only 10 years ago did the bank decide to truly "internationalize."

"We realized that we had been

operating as a representative office not really taking advantage of all the functions possible with agency status," explained Clifton T. Hudgings, New York agent for Banamex, one of Mexico's two leading banks, with approximately \$14 billion in assets, which had reached its share limit at home.

The New York agency assumed the U.S. dollar clearing functions for its head office, undertaking the "whole spectrum of the bank's dollar business," said Mr. Hudgings. Good cash management, with U.S. interest rates running at 18-20 percent, was vital, since the proximity of the two countries creates an extensive business in dollars. As the bank's North American headquarters, the agency funds the bank's activities, maintaining a small credit department, participating in syndications "to maintain our presence in that market," and goes after the Mexican business of U.S. corporations.

"We are unique in the Latin American market," said Mr. Hudgings. "Mexico has lots of international business, which we didn't have to develop. We can help corporations with their Mexican business. Our expertise is geographic; our business is Mexico."

The new thrust has paid off.

Statistics of the Federal Reserve Bank in New York show Banamex's New York agency has grown from \$15 million in assets in 1974 to \$750 million in 1980.

New York Newcomer

A relative newcomer to the New York scene is Banco Rio de la Plata S.A., Argentina's largest privately owned bank with \$1.5 billion in assets and the first private bank to go overseas. Like the Mexican banks, other Latin American banks chose New York for access to the financial markets and international banking community but more importantly, because of trade relationships with the United States.

Banco Rio de la Plata set up a Panama affiliate in 1978 and moved into New York with an agency in October, 1979. In two months, the bank plans to open a

representative office in London, it is attractive for access to the European markets.

Roberto Ruiz, the New York regional general manager, explained the strategy behind the bank's moves. "Panama was an intermediate step, to gain more understanding of international business, but the United States is the most relevant trade partner for Argentina."

Saturation Level

Rio de la Plata, a wholesale bank, had reached the saturation level at home and felt the effects of "negative fluctuations in the economy," Mr. Ruiz said, since its customers are Argentina's multinationals, large corporations and public sector corporations — "the GDP of Argentina."

Mr. Ruiz stressed, "We came to expand into new markets available to us at home, and to provide correspondent services to other Argentine banks; we did not come to acquire debt for the home office." In the process, Mr. Ruiz added, "We gained an ability to support some Argentines with business outside Argentina and to extend relationships between multinationals and Argentines to countries outside."

"We are like a consultate here," Mr. Ruiz said, a major source of technical and legal information, plus information on the Argentine business environment and advisory services to corporations wanting to enter that market.

The banker said that since establishing the New York office in October, 1979, he had had a "crash course in crisis management," with the taking of U.S. banks in Iran, the credit crunch and skyrocketing U.S. interest rates, the economic crisis in Argentina and changes of government and economic policy in both the United States and at home. Despite the tough environment, Mr. Ruiz said, the agency — with \$235 million in assets — has been profitable from the third month, now contributing 20 percent of their bank's overall operating profits.

With more than 40 Latin American banks in New York, the trend seems certain to continue. Chilean law now permits its banks to set up overseas branches; many countries' banks are buying up U.S. banks as a way in. And like their counterparts on other continents, these expanding banks may find they can't go home again.

— PAMELA BAYLESS

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"Exchange rates: too fixed or too flexible?" by Stephen Marris, Economic Advisor to the OECD.

— "The Dentschmark," by Kurt Riehlebacher, consultant and former Executive Manager of Dresdner Bank.

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Mexico Is Suffering From Growth Pains

By Cynthia Vice

ONE of Mexico's leading brokerage houses recently published a large advertisement in a major local newspaper with a soothing photograph of a waveless sea and the word "calm" printed above in bold, black type. The message was clear: The market has its ups and downs like the sea and it is vital to remain calm.

The ad was a blatant reminder to investors that Mexico's economic picture is not as cloudless as it was a year ago. Not only has the country been undergoing violent growing pains; along with its four-year oil bonanza, but in recent months it has also encountered problems selling oil, the precious black gold that has made Mexico the fastest growing nation in Latin America.

Part of the problem, since May, has been the slumping price of oil on the world market. But Mexico compensated that problem. Petróleos Mexicanos, the state oil monopoly, followed market trends at first by cutting \$4 off its price per barrel, but this stirred such a political flap that Pemex was quickly forced to backtrack and raise prices again by \$2 per barrel. The higher price cost Mexico many of its customers this summer, including the French Petroleum Co. The government threatened to cancel its joint industrial development programs with France in retaliation. "Such an outburst of nationalistic oil policy was frightening to some foreign investors here," said one European banker. "This was a bad precedent."

Mexico has since regained most of its export volume by dint of several important concessions and a deal to supply the U.S. government for its strategic oil stockpile. But its problems are not over. Pemex had to recalculate its 1981 oil earnings by some \$5 billion less than the \$18-20 billion it had originally expected.

The economic tensions of the summer months have also left an indecisive mark on international bankers. Many of them see Mexico's bargain-low spreads going up and its terms becoming shorter. "Mexico is not going to get better pricing than the current half percent over Libor," says one U.S. banker, "and perhaps spreads will increase slightly to three-fourths percent by year's end."

Angel Gurria, who heads the Treasury Department's Foreign

Miami a Latin Center

(Continued from Page 7S)

by air. A \$750 million expansion of port cargo facilities is under way.

Miami knows Latin America's needs and is helping to satisfy them. A 1981 telecommunications equipment "expo" drew 2,500 Latinos, many of them ministers of communications or high-level military personnel, to view equipment of 112 multinational exhibitors eager to tap Latin America's top market — \$18 billion to \$20 billion of communications equipment will be purchased by Latin countries in the '80s. Multimillion-dollar contracts were signed, and two companies, E.M. Ericsson of Sweden and ATT International, decided to open Miami offices a month after the expo, joining more than 100 multinationals already in the area. About 200 exhibitors are signing on for next year's "expo." Other Miami expos are planned for electronics, avionics, agribusiness equipment, medical technology and food processing equipment, all major growth markets in Latin America.

"None of us have our eggs in one basket," says Stephen Sternfield, executive director of Miami's International Center, representing 400 corporations engaged in Latin American trade. "We watch our portfolios carefully, not to be overexposed."

One factor that is meant to help Miami's international companies avoid risk and overexposure is an insurance exchange, now in its formative stages. Mr. Sternfield predicts it will be "the next boom," drawing more than 100 international insurance firms during the decade to the Miami exchange for insurance and reinsurance of all kinds in the Latin American marketplace.

Whatever the risk, it only serves to heighten the air of excitement and movement in Miami these days. Gustavo Cisneros explains why. The head of a \$2 billion Venezuelan conglomerate with \$100 million invested in the United States which recently bought into the Florida National Banks of Fla., Inc. said, "Miami has a fantastic future as an international city, and may become another Hong Kong within 10 years."

—PAMELA BAYLESS

ernment to decree a devaluation. A large devaluation, if and when it comes, will be a blow to the banks. Some may be caught with large peso exposures, and others may face defaults or reschedulings as the government and private borrowers find that the dollar equivalents of their debt swell and places a heavier burden on repayment.

Meanwhile, the trade picture looks grim. Analysts estimate that 1981 imports will increase at least 50 percent this year (following a 55 percent increase in 1980), and the trade deficit will climb from \$3.3 billion to at least \$4 billion. Add to that the annual interest payments of \$6.5-7 billion on the foreign debt, and the current account deficit will probably reach more than \$10 billion by December 1981.

Beginning in 1980, authorities have followed a policy of incremental mini-devaluations, which amounted to a small 5 percent loss in the peso's value in 1980 and another 5.3 percent in the first half of 1981. The peso has been dropping a few cents almost every day this year, amounting to an expected total loss of 11-12 percent by the end of the year.

Outside analysts, however, are estimating that the devaluation should be as much as 50 percent to reach true parity with the dollar. The size of the gap poses the gap of a huge flight of capital into the dollar, which would force the govt.

keep the 1981 total from increasing. The government also took steps to reduce its need for loans. A 4 percent budget cut was announced in July, equivalent to \$7 billion, and steps were taken to reduce the flow of imports by increasing the list of commodities requiring import licences and by raising tariffs.

Mr. Gurria refused to comment on just how much the government will actually need this year to cover the oil shortfall. The government is "experimenting" with austerity measures, he says, since it has never been in this situation before. Foreign banking experts say that borrowing for 1981 could reach \$8 billion, or \$3 billion more than scheduled.

Whether or not the government succeeds in controlling its borrowing, Mexico's debt has already reached uncomfortable levels. The public foreign debt at the end of 1980 was \$33.8 billion. The government projects that it will increase to \$38.8 billion by the end of the year, and financial analysts say that it could reach \$42 billion if the austerity measures fail. Taking into account the private sector foreign debt, expected to be \$15 billion at the end of 1981, the total will amount to \$54 billion or more.

To make matters worse, investors are discouraged from putting their money in Argentina by the uncertain course of future government policy. It is neither free-market nor protectionist. Mr. Sigant has maintained sizeable import tariffs but refused to erect import barriers and prohibition. He will not condone subsidized interest rates, but he has created several financial mechanisms to help industries lengthen the terms of their debts.

As a U.S. banker explains, the government has yet to define exactly which industries are worth protecting and which should be left to outside competition. "They still do not know where they want to take this country," comments a Canadian banker.

Upsetting

Meanwhile, the financial upheavals of the past six months have been upsetting to Argentina's international creditors. Foreign bankers were apparently among the last to acknowledge the weaknesses in Mr. Martinez de Hoz's strategy. Up to late 1980, Argentina was negotiating some of the lowest spreads in the continent

Argentina's Recession 'Subtle' but Deep

(Continued from Page 7S)

reserves had fallen from about \$7 billion in January to less than \$5 billion. The devaluations have taken the lid off inflation, which is expected to be at least 150 percent this year.

At the same time, the financial shocks have also corrected the structural imbalances that Mr. Martinez de Hoz had created in the economy. The peso is now valued closer to true market parity, reducing import competition with Argentine-made goods. Interest rates, although still high, are neutral in comparison with the rate of

one-half and five-eights percent over Libor.

As soon as the rapid-fire series of devaluations made the country's economic problems all too obvious, its stock in international markets took a turn for the worse. Japanese banks pulled out of a previously planned \$30 billion bond issue, and a \$300 million syndicated loan for the state oil company was removed from the market.

Interest and Debts

Argentina has since proven that it will have little or no difficulty in obtaining loans, as long as it is willing to pay higher rates. In a \$500 million seven-year syndicated loan led by the Bank of America and scheduled for signing in early October, the Republic of Argentina offered to pay one and one-eighth percent over Libor. "That deal sold like bandits," says a U.S. banker.

The recession and peso devalua-

tions have also resulted in a slower growth of debt this year. After

more than doubling from \$12 billion at end-1978 to about \$27 billion this year, the total foreign debt is about \$30 billion this year, with roughly 50 to 60 percent held by the government. The plentiful trade surplus means that Argentina is having no problems in meeting its debt service payments, about \$5 billion this year.

—JANE BAIRD

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The line, linking Arlabank offices in Lima and Bahrain—the leading Arab financial centre—ensures an effective presence for Arlabank in the international financial markets, particularly in the Middle East and will greatly assist the channelling of financial resources to Latin America.

The satellite communications

link makes a technical reality of the concept of Arlabank as a bridge between these two world regions. The increasing value of this concept is demonstrated by the growth of the Arlabank balance sheet to over US \$1 billion through expanded activity soon to be further enhanced through the engagements by the bank in corporate finance, mergers and acquisitions and investment advisory services.

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Arlabank: An Expanding Bridge to the Middle East

By Craig Justice

After the quadrupling of OPEC oil prices in 1973-74, many Arab countries began looking for new ways to invest their surplus revenues. Meanwhile, Latin American states were trying to entice more capital for their own development, especially those that were not oil exporters and had to spend increasing amounts for petroleum. Theoretically, it looked like a good match. But the Arabs were not familiar with that part of the world, while Latin America lacked Middle East contacts.

During the next three years, however, there emerged the idea of a Latin American-Arab bank to link the economies of the two regions. On Oct. 6, 1977, 27 major financial entities from 18 countries in the Middle East and Latin America founded the Arab Latin America Bank (Arlabank) in Lima with a subscribed capital of \$100 million. Within the last four years, Arlabank's assets have grown to more than \$1.6 billion, and it has recently doubled its subscribed capital to \$200 million (\$125 million is fully paid), of which 60 percent is held by the Arab shareholders and 40 percent by the Latin Americans.

Arlabank, an international merchant bank that offers project finance, syndicated loans and trade finance, functions primarily as a bridge channeling funds from the Arab world to Latin America. The bank's involvement in Latin America comes at an opportune time. U.S. banks are approaching their lending limits south of the border, while their Arab counterparts have a much greater capacity. Furthermore, according to Arlabank officials, Latin America offers attractive investments. "Latin America looks good — it's got basic resources. In Third World terms, it is further up the growth ladder. It has a better potential than Africa," a bank representative said.

Greater Impact

Although Arlabank is far from being the largest Arab bank operating in Latin America, it is well-prepared for a lead role in bringing the two regions closer together because of its excellent Middle East contacts and a staff with Latin American expertise. It is putting together an investment division that will give advice on specific projects in the energy, mineral and agricultural sectors, in addition to advising clients in corporate finance.

mine syndications and managed or co-managed 16 from January 1980 to June 1981, totaling slightly more than \$4.476 billion. It is beginning to have a greater impact on Latin American finance. Its portfolio is diverse, with loans used for a range of projects from building infrastructure to brewing beer. "We do not blackball any countries. We are receptive to any propositions," an Arlabank official said. Arlabank has also been active in Euromarkets, with loans to Yugoslavia and Italian companies, and plans to enter the floating rate note market. Although Arlabank's involvement in Euromarkets will increase as the bank grows, its focus is, by definition, on Latin America.

Under Peruvian law, extraterritorial operations carried out by multinational banks are not subject to government control. Arlabank was the first offshore bank to operate in Latin America, and the only one to keep its headquarters there. It operates a full branch in Bahrain, and keeps in close communication with the Manama office via its own satellite. In addition to the offshore banking unit in Bahrain, Arlabank has representative offices in London, Rio de Janeiro and Bogota. Eventually, the bank plans to establish itself in other Latin American capitals, including Buenos Aires, Santiago, Caracas and Mexico City, and in New York.

Arlabank has taken great pains to adopt a conservative philosophy, and bank officials say that this is respected in the market. In 1979, operating profits were just over \$5.5 million, but this more than doubled last year to approximately \$11.3 million, or slightly less than 1 percent of total assets. During the first six months of 1981, Arlabank showed a net profit of roughly \$9.2 million, indicating continued high growth and increased profitability.

Egyptian Trade

Abdulwahab A. al-Tammar, Arlabank's director and chief executive, has been the driving force behind the bank. Mr. al-Tammar is also chairman and managing director of the Kuwait Foreign Trading Contracting and Investment Co., which is 80-percent state-owned and one of Arlabank's two biggest shareholders. The other is Arab In-

ternational Bank, which is based in Cairo.

AIB was established in 1972 to help finance Egyptian trade with the governments of Egypt and Libya as the largest shareholders, along with Oman, Qatar, the United Arab Emirates and private Arab interests. In spite of the 1979 Baghdad Conference — held in response to the Egyptian-Israeli Camp David accords — which called on participating Arab countries and their establishments to stop granting loans, deposits and banking facilities to the Egyptian government and its establishments, the shareholders of Arlabank work cooperatively, according to bank officials. "Politics does not exist in the bank," an official said.

The other Arab shareholders of Arlabank are the Abu Dhabi Investment Authority, Arab Banking Corp. (Bahrain), Banque Intercontinentale Arabe (Paris), Libyan Arab Foreign Bank, National Bank of Bahrain, National Commercial Bank (Jidda) and Riyad Bank Ltd.

Latin American shareholders are Banco Arabe Espanol, Banco Cafetero (Bogota), Banco de Bogo-

Resources Attracting Investors to Region

(Continued from Page 75)

courage foreign investment in 12 large projects that are as yet unfinanced. And Venezuela seeks investment for the aluminum sector, second only to oil in export earnings.

In Brazil, a priority is agriculture, a 10-percent growth sector, with soya, coffee, orange juice, cocoa and sugar traditionally the top exports. The newly cleared tropical forest in Carajás is expected to provide millions of acres of mineral-rich soil with great potential for agriculture and tree farms.

Jari, a bold agro-industrial experiment by U.S. investor Daniel K. Ludwig, has come upon hard times, and 30 percent of the project is up for sale. Mr. Ludwig invested nearly \$1 billion in the Brazilian jungle in the 1970s on 5,600 square miles he bought for \$3 million. The 120 million fast-growing trees he planted in hopes of producing vast amounts of paper pulp did not adapt to the soil, and rice harvests fell 30 percent below expectations. The world's largest herd of water buffalo — 6,000 animals — is being sold off or slaughtered.

There are construction possibilities all over the region, but nowhere greater than in the vast hydroelectric projects. Nearly every country with rivers to harness is increasingly turning to this source of electricity.

The most ambitious of these is Argentina's plan to spend \$15 billion by the year 2000 to build 27 hydroelectric power projects. The country hopes eventually to derive 73 percent of its domestic energy needs from these sources. Three of 10 ongoing projects are on stream, and an estimated \$11 billion in international loans and foreign capital will be needed for completion.

Currently, Argentina's biggest dam project is under construction on the Paraná River, constantly fed by melting snows from the Andes and the tropical rains of Brazil and Paraguay. Scheduled for start-up in 1986, Yacyretá Binacional, a joint project between Argentina and Paraguay, will cost about \$7.2 billion. About 25 construction firms from 12 countries have bid on the 2,700-megawatt complex.

The biggest hydroelectric plant in the world is Itaipú, a 12,600-megawatt complex being built on the Paraná's Iguaçu Falls between Brazil and Paraguay. Itaipú, at a cost of nearly \$13 billion, is expected to

produce half of Brazil's generating capacity. At least \$1.5 billion is needed to complete the scheme. To date, most financing has been obtained through suppliers' credits, private and public Brazilian institutions, and Swiss and West German banks, whose companies are important equipment suppliers.

In the manufacturing sector, automakers are finding tremendous opportunities in Latin America, with the fastest-growing market in the world — 9 percent a year — for automobile and truck sales. Major European, North American and Japanese vehicle makers are scrambling to fill the need. Ford alone expects sales to at least triple by the year 2000, from 2 million to 6 million units a year.

Mexico is the darling of foreign investment in manufacturing, offering major opportunities in keeping with rapid industrial growth. About 77 percent of its anticipated \$3 billion in foreign investment this year is destined for manufacturing, and \$1 billion of that is expected in the automobile sector. Foreign investment has doubled yearly since 1979, when the government loosened restrictions on foreign firms, especially those promoting technological change and widening exports. The government especially wants more truck production. Even the financially troubled Chrysler Corp. is making money, with nearly \$30 million in 1980 profits in Mexico on more than \$1 billion in sales.

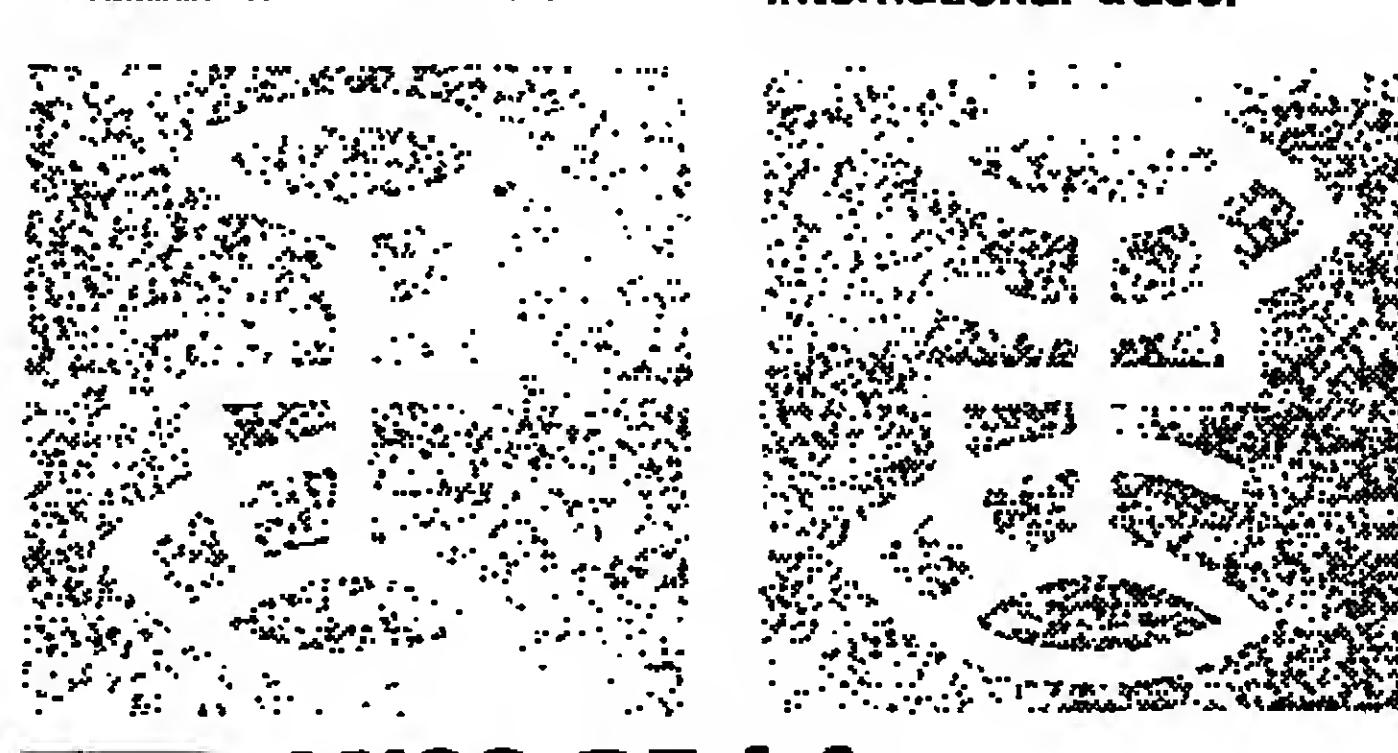
A severe shortage of capital and technology has led Mexico to offer special incentives to multinationals. "In-bond" processing plants, for export products only, may be 100-percent foreign-owned; others must observe the "Mexicanization" rule of 49-percent ownership through joint ventures. Other areas where foreign investment is welcome are high technology, jet engines, computers, petrochemicals, and transportation and port development.

In agriculture and forestry, Chile has put some of its rich and varied resources on offer to the highest bidder, as part of a market diversification away from mining. In Venezuela and Colombia, countries that do not eagerly seek foreign investors, agro-industrial programs are among the most welcome. Venezuela, which imports half its food, is hoping that foreign investment will reduce dependency.

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in LATIN AMERICA

Brazil Attempts to Avoid Reckoning Day

(Continued from Page 7S)
minister, Antônio Delfim Netto. Mr. Delfim rose to the post of planning minister and has become Brazil's economic "czar."

One of his first acts was to try to outrun the rate of inflation by out-producing it—in essence a type of supply-side economics. Acting on the belief that there was considerable excess capacity in some sectors, Mr. Delfim sought to stimulate production in these sectors in the expectation that the increased supply would cause prices to fall. The experiment was disastrous. Inflation rose from 40.8 percent in 1978 to 71.2 percent in 1979 and to the record level of 110.2 percent in 1980.

Signs of Discord
In late 1979, the first signs of discord between Brazil and its bankers appeared. The government negotiated a \$1.2-billion "jumbo" loan syndication at Libor plus 1% percent. At the time, spreads were beginning to rise, and the banking community asked Brazil instead to take down three separate loans of \$400 million each, with the later loans paying higher spreads. Brazil insisted and, according to some bankers, promised that the country would return to the market in January or February of 1980 to compensate the banks for spreading at the low 1% spreads. But Brazil did not go to the market until May. It was not surprising, therefore, to hear bankers saying in 1980 that Brazil should seek a standby loan from the International Monetary Fund rather than draw more funds from the private banking community.

This tactic yielded the expected results. Brazil's antipathy for International Monetary Fund-mandated economic belt tightening is well-known. The country acceded to bankers' demands for higher spreads and is now paying an incredible 2.25 percent over Libor (or 2 percent over the U.S. prime rate). On bank-to-bank loans, the business is even more attractive. In addition to the normal spread, Brazil pays a commission that ranges from 0.5 percent to 1 percent in cruzeiros (used to defray local office expenses and tax receipts). The effective yield to foreign banks on such loans is estimated to be on the order of 8 percent to 9 percent.

Therein lies the reason for continued bank financing to Brazil. When one considers that Poland, a centrally planned economy under the threat of Soviet intervention, has rescheduled its foreign debt at 1.75 percent over Libor, it is easy to see why a banker would be more anxious to lend to a country such as Brazil where market information flows relatively freely, there is no external threat to the economy and the bank can earn an effective yield of 8 percent to 9 percent.

But both the banks and the country appear to have poorly estimated the market. The strengthening of the U.S. dollar on world markets in 1981 has severely eroded the Eurodollar funding capacity of European and Japanese banks. U.S. banks have come perilously close to their lending limits for Brazil with three months remaining in the year. As a result, the remainder of 1981 and

Oil Thrusting Venezuela, Mexico Into Leading Roles

(Continued from Page 7S)
about \$5 billion and its debt service is a low 15 percent of exports.

Since 1972, Ecuador's growth has been financed by higher oil prices and growing indebtedness, but that era is coming to an end. The drop in oil prices will mean a growing current account deficit and growing pressure to reduce the lavish government spending under the civilian government. Ecuador's aggressive borrowing is pushing up the foreign debt well over \$4 billion by the end of 1981. Debt service will be over 36 percent of export revenues.

Ecuador's most serious problem is the low level of oil exploration. The administration has submitted a long-awaited bill to modify the unfavorable terms of exploration contracts, but oil companies found the proposals disappointing. Even this bill may not be able to pass Congress.

The Bolivian economy is in a state of severe crisis caused primarily by a shortage of foreign exchange. Negotiations with the IMF for a two-year, \$220 million stand-by loan have been stalled for months, due in part to international condemnation of the military government for its role in cocaine trade. The government clamped down severe exchange controls in

early August, but the IMF could not obtain additional credit from the banks, which are waiting for the elections before committing more funds. Furthermore, recent decisions by the legislature and the Supreme Court have threatened the administration's ability to carry out the policies it promised the IMF, and the agreement appears doomed to fall apart.

In El Salvador, the fiscal deficit, and the need for loans is growing rapidly. Only \$24 million in 1979,

the deficit grew to \$198 million in 1980 and is projected at \$295 million in July. Costa Rica could not obtain additional credit from the banks, which are waiting for the elections before committing more funds. Furthermore, recent decisions by the legislature and the Supreme Court have threatened the administration's ability to carry out the policies it promised the IMF, and the agreement appears doomed to fall apart.

Political upheaval in Guatemala has caused a severe capital flight, which is depleting the country's usually high level of international reserves, down to an uncomfortable \$200 million or less by the end of 1981. The government is also increasing its spending, by 77 percent this year, and its borrowing to make up for lagging private investment. There is yet little concern, however, because the debt is low and the service is insignificant.

The Nicaraguan government will assume a growing role in the economy, as the private sector continues to withdraw, creating greater pressures on spending. The country is also suffering from a wrenching trade deficit, estimated at \$400 million this year, because of low coffee prices and low output of other exports.

Although it has renegotiated its debt with the international banks, Nicaragua is depending on donations and low-interest multilateral and government-to-government loans to meet its day-to-day foreign exchange needs.

JANE BAIRD has most recently become an associate editor at *Institutional Investor*. She has previously worked for *Business International* and other publications.

PAMELA BAYLESS is the former editor of Special Sections for *Newsweek International*. She is a former editor for *The Asian Wall Street Journal Weekly*.

JAMES WYGAND, an economist, is a private consultant in Rio de Janeiro on corporate strategic planning, mergers and acquisitions, and international banking.

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CYNTHIA VICE is a free-lance writer based in Mexico and a former reporter for *The Associated Press*.

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Time and determination.

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Latin America, operates overseas branches and representative offices, and established links with the world's main financial centres, giving full backing to the development of basic resources and to plans for economic cooperation.

That is, achievements which take time.

Time and determination.

And, with these self-achievement.

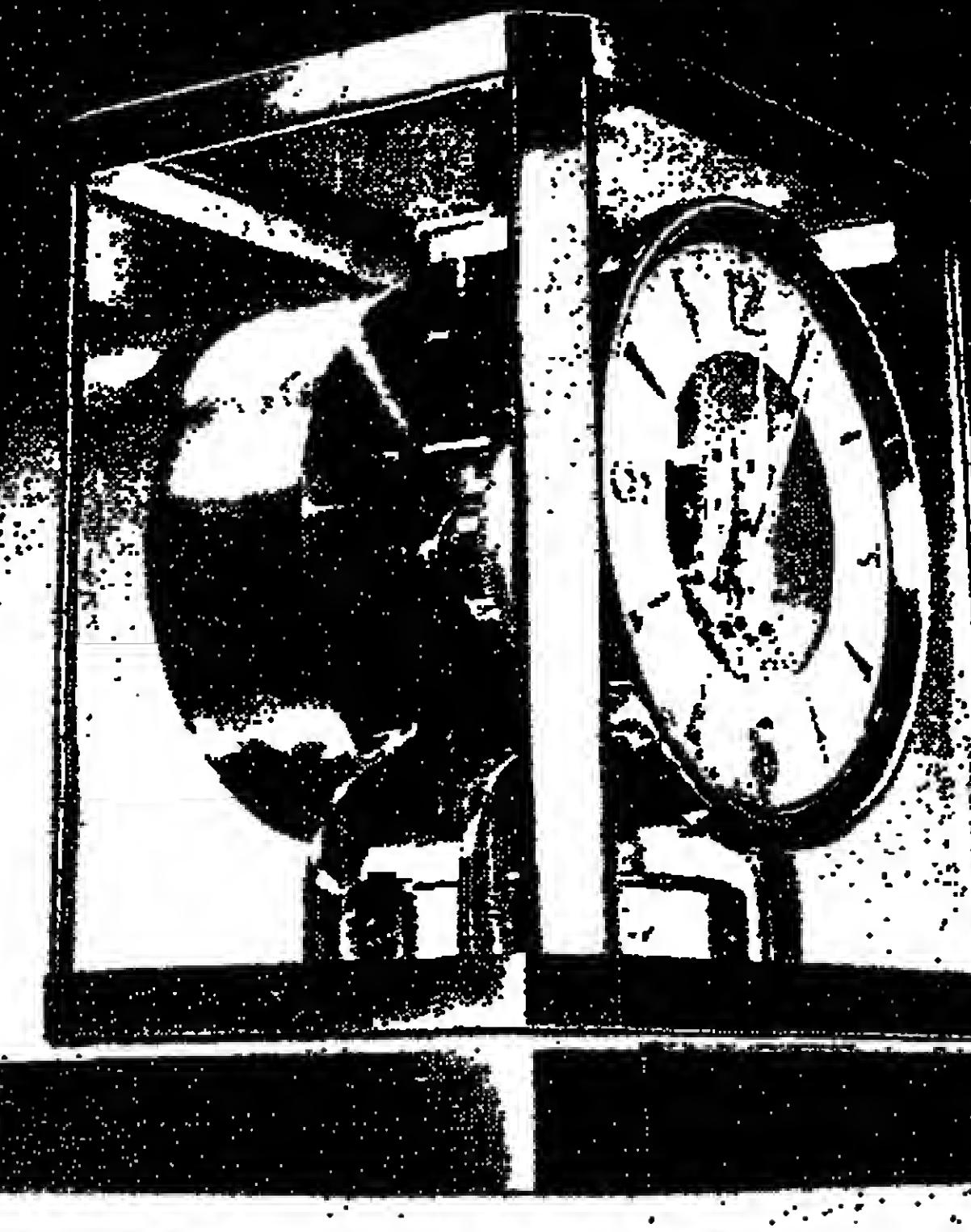
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Con estos nos permitieron constituirnos en nuestro país, en la mayor institución de crédito con la más extensa red de sucursales con alcance operativo mundial. Luego, abrimos filiales y representaciones y nos conectamos con los principales centros financieros del globo, dedicando amplia atención para la realización de proyectos de emergencia; para el desarrollo de recursos básicos para la implementación de planes de modernización económica.

Es decir, cosas que—para ser y hacer algo—requieren tiempo.

Tiempo y tesón. En eso estamos.

BANCO DE LA NACION ARGENTINA

A TRAVES DEL TIEMPO... (TIME)



BanNacion Publicidad Ltda.

VENZUELA: think

BROADEST BASIS - LARGEST VENEZUELAN BANK IN:

- ✓ Total assets
- ✓ Deposits

LINKED TO THE GROWTH AREAS OF THE ECONOMY, (BACKED BY GOVERNMENT PROGRAMS) AS:

- ✓ Social housing
- ✓ Export financing
- ✓ Industry
- ✓ Agriculture

OPEN TO FOREIGN INVESTMENTS SEEKING:

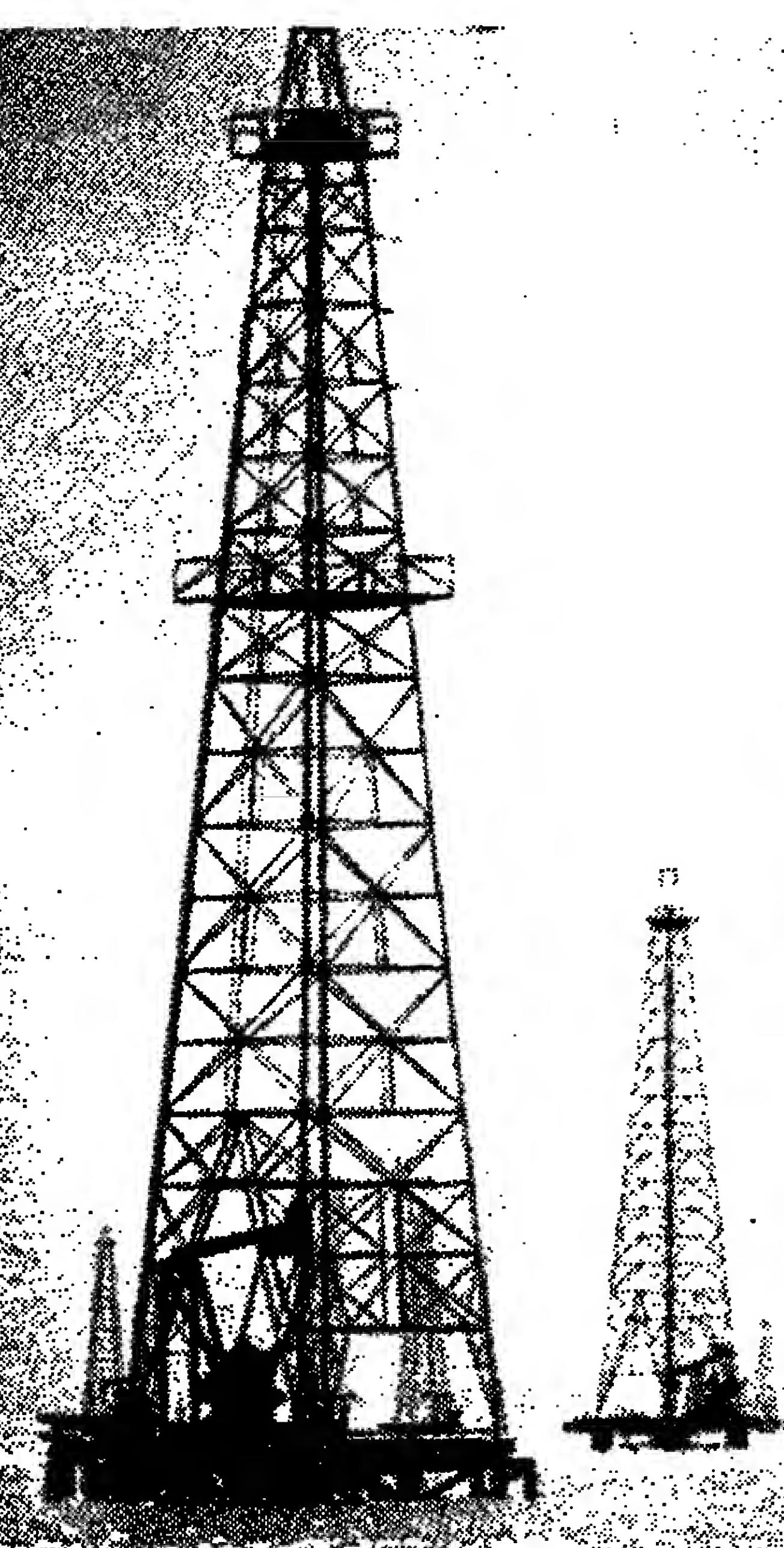
- ✓ Joint ventures
- ✓ Advise & guidance
- ✓ Partnership & friendship

WE ARE:

- ✓ The only universal bank of Venezuela authorized to effect jointly short-medium and long-term financing, varying from commercial to mortgage operations.

WE HAVE:

- ✓ OVER 50 BRANCHES IN VENEZUELA
- ✓ A YOUNG AND EXPERIENCED MANAGEMENT
- ✓ A BROAD BASIS



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Africa, ex-Fr. comm. (air).....\$	230.00	115.00	63.00	Iran (air).....\$	248.00	124.00	69.00	Polynesia, French (air).....\$	248.00	124.00	69.00
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Bulgaria (air).....\$	230.00	115.00	63.00	Italy.....Lire	14,000.00	7,200.00	3,900.00	Spain (air).....Ptas.	12,680.00	6,300.00	3,520.00
Canada (air).....\$	330.00	165.00	92.00	Kuwait (air).....\$	330.00	165.00	92.00	Sweden (air).....S.Kr.	810.00	405.00	225.00
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Czechoslovakia (air).....\$	230.00	115.00	63.00	Libya (air).....\$	248.00	124.00	69.00	Tunisia (air).....\$	230.00	115.00	63.00
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Egypt (air).....\$	248.00	124.00	69.00	Malagasy (air).....\$	330.00	165.00	92.00	U.A.E. (air).....\$	330.00	165.00	92.00
Ethiopia (air).....\$	330.00	165.00	92.00	Malta (air).....\$	230.00	115.00	63.00	U.S.S.R. (air).....\$	230.00	115.00	63.00
Finnland (air).....F.M.	810.00	405.00	225.00	Mexico (air).....\$	330.00	165.00	92.00	U.S.A. (air).....\$	230.00	115.00	63.00
France.....F.F.	720.00	360.00	198.00	Morocco (air).....\$	230.00	115.00	63.00	Yugoslavia (air).....\$	230.00	115.00	63.00
Germany.....D.M.	360.00	180.00	100.00	Netherlands.....Fl.	406.00	203.00	112.00	Zaire (air).....\$	330.00	165.00	92.00
Great Britain.....Pst.	54.00	27.00	15.00	Norway (air).....N.Kr.	810.00	405.00	225.00	Other Eur. Countr. (air).....\$	230.00	115.00	63.00

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Delhi Agrees To Merger With CSR

New York Times Service
NEW YORK — Delhi International Oil has agreed to merge with its subsidiary of CSR of Australia that is to offer \$78 a share for all of Delhi's common stock. The transaction, based on Delhi's 7.58 million common shares outstanding, would be worth \$591.2 million.

Delhi, one of the smaller oil companies based in Dallas, announced Wednesday that the offer is expected to begin by next Tuesday. The agreement also calls for a CSR subsidiary to buy 1,475 million authorized but unissued Delhi shares for \$78 each, or \$115 million.

Delhi, long considered a takeover target, has major exploration interests in Australia as well as modest oil and gas reserves in the United States. In 1980, the company earned \$4.8 million, or 62 cents a share, on sales of \$27.1 million.

Delhi's management put the concern up for sale last year. The company said in July that its plan to sell was on schedule and that it expected to receive proposals for acquisition by this month.

Sedco Purchase

In April, 1980, Sedco, an offshore drilling company based in Dallas, announced that it had purchased 11.2 percent, or \$46,000 shares, of Delhi's stock.

Investment bankers have said that it is difficult to assess the value of Delhi's 24 million acres of undeveloped land in Australia.

Last year, Delhi sold 22.4 million cubic feet of natural gas in Australia and it had reserves of about 752 billion cubic feet. Most of the gas is under long-term contract and is selling at about 70 cents per thousand cubic feet, a price that analysts consider low.

Delhi also owns 983,000 barrels of proven oil reserves in the United States and 14.9 billion cubic feet of natural gas.

In January, 1980, Delhi and other companies with interests in the Cooper Basin oil and gas fields notified the South Australian government that they could be ready to begin production of crude oil, gas condensate, butane and propane in early 1983. The government has since begun work on a pipeline and port facilities.

Slide Continues On U.K. Markets

By Leonard Downie Jr.
Washington Post Service

LONDON — Share prices continued to fall drastically Thursday on the London Stock Exchange, accelerating a steep two-week slide that analysts blame on deepening pessimism about the economic policies of both Prime Minister Margaret Thatcher's Conservative government and the Reagan administration.

Market analysts said the U.K. financial community was more skeptical than ever that Mrs. Thatcher's determination to stick to her monetarist economic strategy will hold down inflation, reduce the government budget deficit or bring Britain out of its four-year recession in a half century.

Investors are similarly doubtful, according to the analysts, that the Reagan administration will succeed in reducing budget deficits, inflation or high U.S. interest rates, which have destabilized currency values and financial markets throughout the industrial world.

Prices slumped on stock exchanges in Europe, Asia and Australia Thursday after this

(Continued on Page 15)



A headline outside London's Stock Exchange gives the bad news inside.

GAO Criticizes Restructuring Plan for AT&T

United Press International

WASHINGTON — Serious flaws exist in government plans to deregulate the telecommunications industry by permitting American Telephone & Telegraph Co. to offer new services through a separate subsidiary, the General Accounting Office said Thursday.

The GAO, the investigative arm of Congress, studied a 1980 Federal Communications Commission decision to permit AT&T, the world's largest company, to reorganize in order to enter unregulated and lucrative fields such as data processing.

The Senate is expected to take up next week a complex bill to replace the FCC's deregulation order with a comprehensive telecommunications deregulation law. The House has held extensive hearings and hopes to produce its own bill by early November.

National Semiconductor

United Press International

SANTA CLARA, Calif. — National Semiconductor said it will shut down its semiconductor operations at Greenock, Scotland, for four days in November and at its U.S. plants for three to four days due to continuing market softness.

The FCC decision, scheduled to take effect March 1, would break up AT&T so it could enter unregulated fields now closed to it. It also would deregulate the telephone equipment industry and would open interstate calls to more competition.

Baby Bell?

The new AT&T subsidiary is aimed at preventing the telecommunications giant from using monopoly revenues from basic telephone service to subsidize its competitive activities.

But at issue is whether there are enough restraints to prevent the Bell System from subsidizing its newly independent company — dubbed "Baby Bell" — to keep down prices and eliminate competition.

The GAO, which has been working on the study for two years, said it did not believe the FCC would be able to monitor relations between the parent company and its spinoff firm well enough to know if there was subsidization.

The FCC has failed to gather the data it needs to monitor the industry; has focused on establishing maximum profit margins for AT&T without scrutinizing the equipment costs and other expenses to which the profit margin

is applied, and failed after a 20-year struggle to develop an effective means of determining what it costs AT&T to provide specific services, the GAO said.

It also expressed reservations about allowing the parent and its fledgling firm to share research, development and manufacturing costs provisions contained in both the FCC decision and the Senate bill.

The restructuring of AT&T, which accounts for 80 percent of the U.S. telecommunications in-

dustry, would by necessity force realignment of the entire industry.

Among the GAO's major findings is that contrary to the conclusions in the 1980 FCC decision, the telecommunications market is still dominated by one firm — AT&T.

"The GAO is strongly critical of the FCC's ability to encourage and monitor the telecommunications industry's transition from a highly monopolized structure to a more competitive one," said a summary of the report.

Thursday's Labor Department

report said smaller-than-recent increases in housing, transportation and food costs helped hold the August rise in a seasonally adjusted 0.8 percent, well below July's sharp rise of 1.2 percent.

It was the second straight month of double-digit inflation after four months below the 10-percent level.

The new report shows that inflation for the past 12 months from August to August, was 10.9 percent. For the first eight months of this year, it ran at a 9.6 percent annual rate.

Although August's 1-percent in-

crease in housing costs was the smallest in four months, the Labor Department report said the housing component of the Consumer Price Index still accounted for more than half of the overall August increase.

Housing prices shot up 1.6 per-

cent in July and have ranged above the 1-percent mark each month since April, when it was 0.7 per-

cent.

Private economist Sandra Shaber said the August report indicated inflation is "on a moderating trend in the long run." Ms. Shaber, senior economist with Chase Econometrics in Bala Cynwyd, Pa., predicted inflation for the year would run about 10 percent, compared with 12.3 percent in 1980.

Jerry Jordan, a member of the President's Council of Economic Advisors, also said the August report suggested inflation would come in under 10 percent this year.

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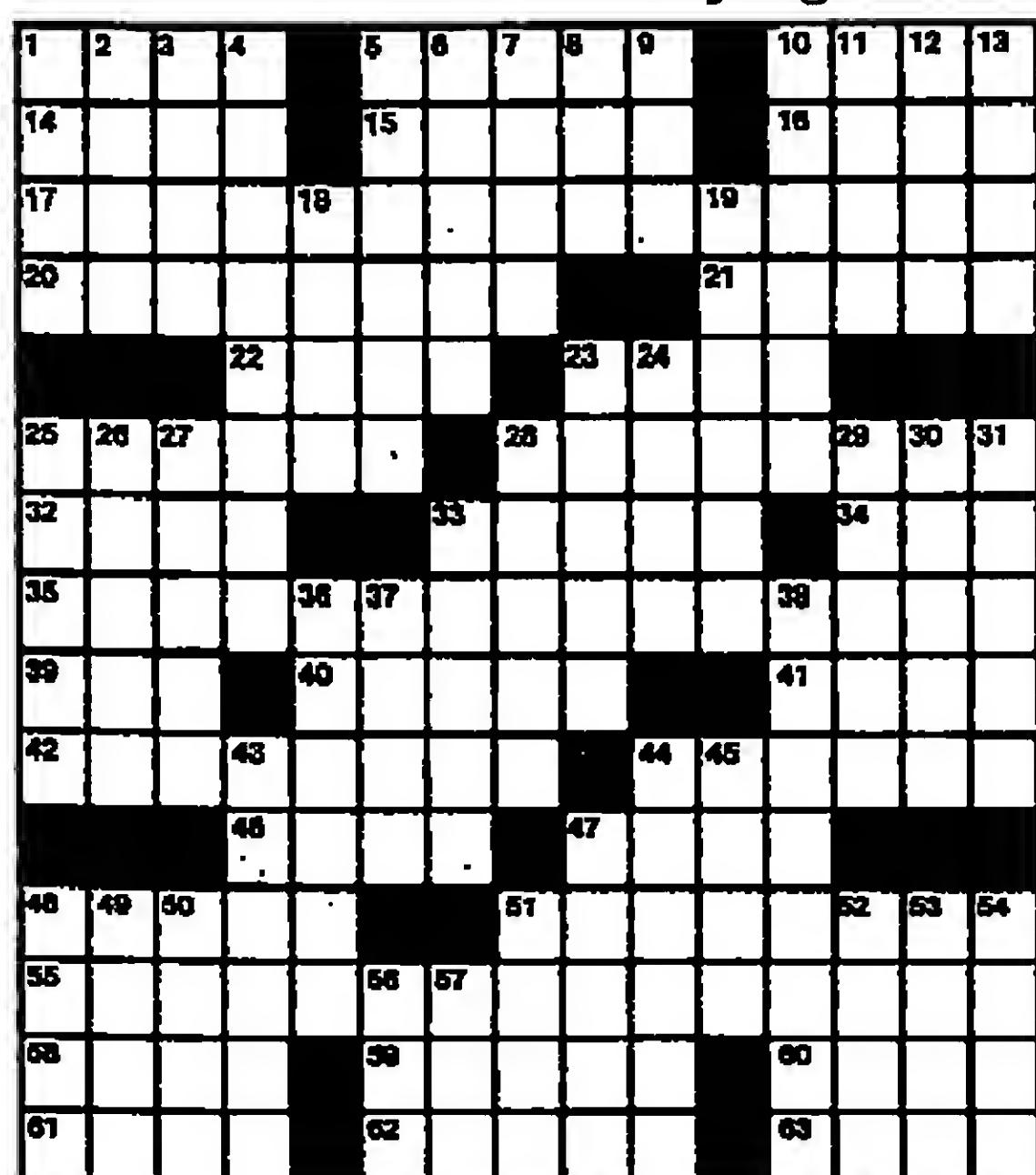
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CROSSWORD

By Eugene T. Maleska



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WEATHER

	HIGH	LOW	C	F		HIGH	LOW	C	F	
ALGARVE	26	21	12	59	Fair	MADRID	21	70	6	Fair
ALGERIA	26	21	12	59	Cloudy	MANILA	21	70	25	Foggy
AMSTERDAM	26	21	12	59	Cloudy	SINGAPORE CITY	21	70	25	Foggy
ANCARA	26	21	12	59	Fair	MIAMI	21	70	25	Cloudy
ATHENS	26	21	12	59	Rain	MONTREAL	21	70	18	Fair
AUSTRALIA	26	21	12	59	Rain	MOSCOW	21	70	18	Cloudy
BANGKOK	26	21	12	59	Rain	NAGOYA	21	70	18	Cloudy
BEIRUT	26	21	12	59	Rain	NAGOZU	21	70	18	Cloudy
BELGRADE	26	21	12	59	Fair	NEW DELHI	21	70	18	Cloudy
BERLIN	26	21	12	59	Fair	NEW YORK	21	70	18	Cloudy
BOSTON	26	21	12	59	Fair	OSLO	21	70	18	Cloudy
BRUSSELS	26	21	12	59	Fair	PARIS	21	70	18	Rain
BUDAPEST	26	21	12	59	Fair	PEKING	21	70	18	Rain
Buenos Aires	26	21	12	59	Fair	PRAGUE	21	70	18	Rain
CAIRO	26	21	12	59	Fair	SAO PAULO	21	70	18	Rain
CASABLANCA	26	21	12	59	Fair	SINGAPORE	21	70	18	Rain
CHICAGO	26	21	12	59	Fair	STOCKHOLM	21	70	18	Rain
COPENHAGEN	26	21	12	59	Fair	SYDNEY	21	70	18	Rain
COSTA RICA	26	21	12	59	Fair	TAIPEI	21	70	18	Rain
DAMASCUS	26	21	12	59	Fair	TEL AVIV	21	70	18	Rain
DUBLIN	26	21	12	59	Fair	TOKYO	21	70	18	Rain
EDINBURGH	26	21	12	59	Fair	VENICE	21	70	18	Rain
FLORIDA	26	21	12	59	Fair	VIEDENOV	21	70	18	Rain
FRANKFURT	26	21	12	59	Fair	WASHINGT	21	70	18	Rain
GENEVA	26	21	12	59	Fair	ZURICH	21	70	18	Rain
HONG KONG	26	21	12	59	Showers					
ISTANBUL	26	21	12	59	Cloudy					
JERUSALEM	26	21	12	59	Cloudy					
LAS PALMAS	26	21	12	59	Overcast					
LIMA	26	21	12	59	Overcast					
LISBON	26	21	12	59	Overcast					
LOS ANGELES	26	21	12	59	Rain					
LUANDA	26	21	12	59	Rain					
LOS ANGELES	26	21	12	59	Rain					
MADEIRA	26	21	12	59	Rain					
MANCHESTER	26	21	12	59	Rain					
MOSCOW	26	21	12	59	Rain					
NUREMBERG	26	21	12	59	Rain					
PARIS	26	21	12	59	Rain					
PHILADELPHIA	26	21	12	59	Rain					
PRAGUE	26	21	12	59	Rain					
REykjavik	26	21	12	59	Rain					
ROTORUA	26	21	12	59	Rain					
SAO PAULO	26	21	12	59	Rain					
SINGAPORE	26	21	12	59	Rain					
STOCKHOLM	26	21	12	59	Rain					
TOKYO	26	21	12	59	Rain					
VIENNA	26	21	12	59	Rain					
WALLACE	26	21	12	59	Rain					
WINDHOEK	26	21	12	59	Rain					
WOMBLE	26	21	12	59	Rain					
YEREVAN	26	21	12	59	Rain					
ZURICH	26	21	12	59	Rain					

ADVERTISEMENT INTERNATIONAL FUNDS

September 24, 1981

The net asset values quotations shown below are supplied by the Funds listed with the exception of some funds whose quotes are based on issue prices. The following table lists the names of the funds, their symbols, and the telephone numbers to call for information: (1) - monthly; (2) - quarterly; (3) - semi-annually; (4) - annually.

ALLIANCE INVEST LTD. of Bermuda/Bermuda (1) 411/223-5181 (2) 411/223-5181

BANK JULIUS BAER & Co Ltd. (1) 411/223-5181 (2) 411/223-5181

BANK OF AMERICA (1) 411/223-5181 (2) 411/223-5181

BANK VON ERNST & Cie AG (2) 411/223-5181 (3) 411/223-5181

BRITANNIA PO Box 221, St. Helier, Jersey (1) 411/223-5181 (2) 411/223-5181

CAPITAL INTERNATIONAL (1) 411/223-5181 (2) 411/223-5181 (3) 411/223-5181

CREDIT SUISSE (1) 411/223-5181 (2) 411/223-5181 (3) 411/223-5181

G.T. MANAGEMENT LTD. (1) 411/223-5181 (2) 411/223-5181 (3) 411/223-5181

HANOVER INVESTMENT FUND (1) 411/223-5181 (2) 411/223-5181 (3) 411/223-5181

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